How to Work Financially With the Problem Gambler

One of the biggest challenges in working with a problem gambler is that the gambler cannot entirely avoid the one thing that feeds his or her gambling habit—money. A drug addict can physically avoid illegal drugs. An alcoholic can physically avoid alcohol. A gambler can stay out of casinos and stop buying lottery tickets. But a gambler cannot easily avoid banks, cash registers, and touching money. What can be done—and this is where your financial knowledge learned here can help immensely—is to minimize the gambler's access to money, teach the gambler (and often the gambler's family) how to properly manage money, and ultimately help restore their proper sense of value toward money.

The remainder of this guide covers a variety of actions the gambler may take to relearn how to manage money so he or she can regain financial stability in life and begin working toward a sound financial future. These may be areas you'll talk about directly with the gambler and perhaps with a professional financial advisor, as well. At a minimum, they are financial issues you should be familiar with to help the gambler recover.

These actions include:

- identifying income and assets the gambler can use to feed his or her habit
- establishing a spending plan
- shifting control of the finances to the nongambler
- setting up a repayment plan for gambling and nongambling debts
- avoiding bankruptcy
- deciding whether to have an investment program

Be aware that some of these actions and strategies for the actions run counter to standard money management practices because standard practices aren't always appropriate for the problem gambler.

CAUTION:
It must be emphasized again that taking these financial actions will not address the gambler's addiction. Recovery can only come from abstaining from gambling and, ideally, going through a therapeutic program. Consequently, it is strongly advised that you not encourage the gambler to undertake the following recommendations until he or she has not gambled for an appropriate period of time (at least 30 days).

Identifying Assets and Sources of Income

Money is the lifeblood for the problem gambler. Without it, the gambler cannot continue betting. A key to regaining and maintaining financial stability is to limit the gambler's access to money. To accomplish this, the gambler must first list the sources of income and available assets that can finance the problem gambler's habit.

Sources of Income

Have the gambler start with the obvious sources of income: paychecks, Social Security and pension benefits, unemployment income, trust income, cash advances from credit cards. Also ask the gambler to identify possible sources the gambler might "fudge" on, such as tips, bonuses, or commissions.

Look into less obvious sources, such as a soon-to-arrive inheritance or a tax refund. You may want to ask the gambler's loved ones if any items are missing from around the house. These could include furniture, appliances, or other valuables, that could have been sold for cash. Ask the gambler or the nongambling loved one if the gambler is expecting a check from an insurance company to pay for property damage, such as to a roof or a car. (The gambler could skip the repairs and cash the check to pay for gambling.) The gambler also might ignore certain financial obligations, such as quarterly estimated tax payments.

What friends, family members, business partners, or co-workers might lend money to the gambler? Have the gambler or the loved ones ask this circle of people not to loan or give money to the gambler.

What illegal sources of income could the gambler turn to? Is the person in a position to embezzle or steal funds at work? Is there a risk the gambler might sell drugs or turn to prostitution? Is there a risk that the gambler may attempt to cause a property loss in order to collect on insurance benefits? Is there a chance the gambler may try to sell personal assets through an on-line auction?

All potential sources must be identified and then tracked on a regular basis. The gambler's spouse, partner, or whoever else is in a position to monitor the gambler's finances should be alert for discrepancies between income and expenses, which might indicate hidden sources of income being used to fund gambling.

Anything is fair game to the gambler if it can be cashed in, borrowed against, pawned, or sold.

Financial Assets

What financial assets can the gambler potentially turn into cash? These might include:

- bank accounts
- certificates of deposit
- mutual fund accounts
- individual stock and bond securities
- retirement accounts
- individual retirement accounts (IRAs)
- home equity
- interests in a small business
- real estate
- cash value in life insurance policies
- trust funds

Have the gambler or a loved one document all personal assets such as cars, a boat, jewelry, antiques, artwork, furnishings, a stamp collection, and appliances.

Anything is fair game to the gambler if it can be cashed in, borrowed against, pawned, or sold. Worse, some of these assets cannot be easily replaced, such as family heirlooms or money pulled out of an IRA or retirement account at work.

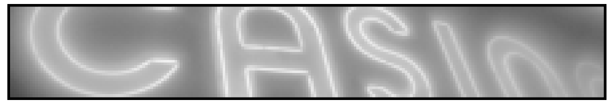
The Gambler's 'Stash'

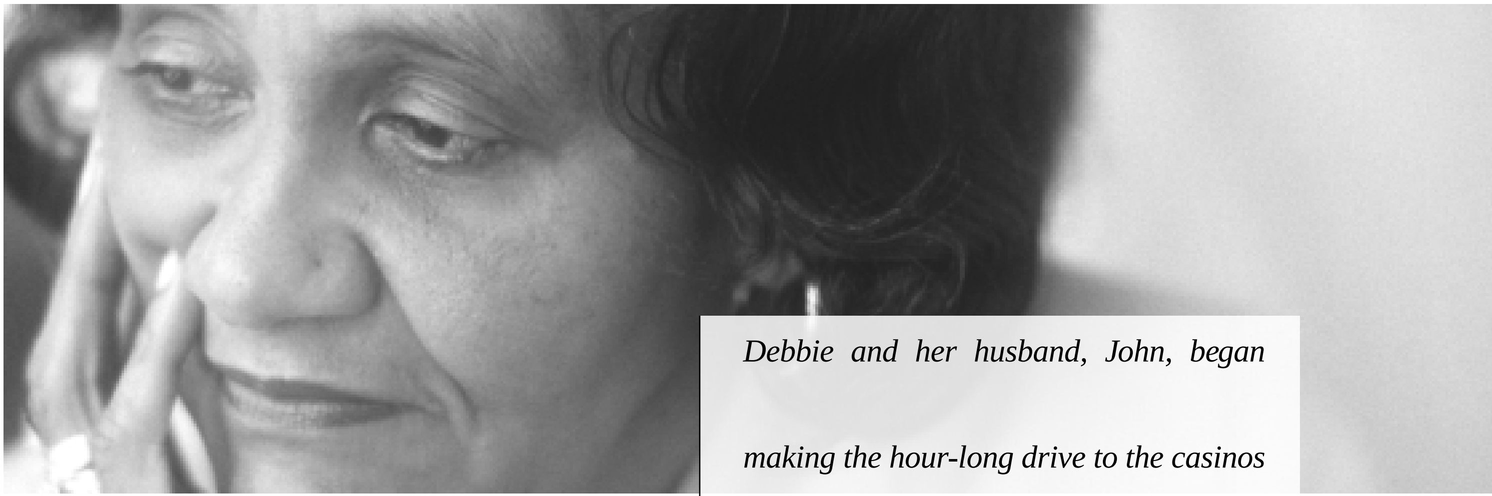
A "stash" is any source for cash that the problem gambler does not disclose to a spouse, partner, treatment professional, financial advisors, or others attempting to help the gambler recover. It might be cash stuffed in an unknown safe-deposit box, an unreported credit card, pawned jewelry, unreported pay from work, a secret bank account, or individuals such as a loan shark. Income from a business the gambler owns, especially a business that deals a lot in cash, can be easy to hide.

To uncover these stashes, begin by asking the problem gambler to tell you about them. Be firm and blunt. "Jog" the gambler's memory by suggesting places he or she may have hidden money—just in case the gambler "can't remember." Emphasize that lack of cooperation and honesty will only make the financial and psychological recovery efforts more difficult. A loved one familiar with the gambler's finances also may be able to help the gambler remember.

The gambler will probably not disclose every stash, at least not right away. Out of habit, gamblers usually have lied about their betting, often for years. It's difficult for them to "come clean." They may genuinely forget about some stashes. You'll probably need to return to this subject several times to uncover stashes little by little.

It's also important at this stage to encourage the spouse or other loved one financially involved with the gambler to disclose any stashes he or she may have. It's common for spouses, partners, and other loved ones to hide money from the gambler so they can pay the bills or just keep the money from being gambled away. Honesty among all parties is critical here.





Debbie and her husband, John, began making the hour-long drive to the casinos in the mountains of Colorado shortly after the casinos opened. The novelty wore off soon for Debbie, but not for her husband. He continued going to the casinos several evenings a week. Although their combined household income was a modest $3,000 a month, John managed to lose $40,000 in three months. When he wouldn't stop, Debbie filed for divorce after 17 years of marriage. "The husband I divorced was not the husband I married," she said.

"The husband I divorced was not the husband I married."

The Monitoring that a Loved One Might Do

You might recommend to the gambler's spouse ways that he or she could do some double-checking. Suggest that the spouse start with a joint credit report. Such reports show credit-history inquiries and problems of missed or late payments. The reports might reveal unknown debt obligations or credit cards, or show a post office box the gambler is using to hide gambling transactions. Reports can be obtained from one of three credit bureaus:

• Equifax, (800) 685-1111

• Experian, (888) 397-3742

• Trans Union, (800) 645-1933

Depending on the state in which you live, the report may be free (one report a year) or a small fee (around $8) may be charged. Some spouses get monthly reports to monitor for suspicious activity.

In situations where the gambler is not married, or where the gambler may have a credit card in his or her own name, the gambler would need to provide a signed release for someone to see a copy of the credit report. As the counselor, you could make this part of the treatment process. Also insist that the gambler bring the report to your office, unopened.

If possible, have the loved one take in all the gambler's mail. This keeps unsolicited loan offers and credit cards out of the gambler's hands, and allows the monitoring of mail from creditors. Also, have the loved one monitor the answering machine for calls from bill collectors, friends, and relatives who may be owed money.

A check of Web browsers might reveal on-line gambling.

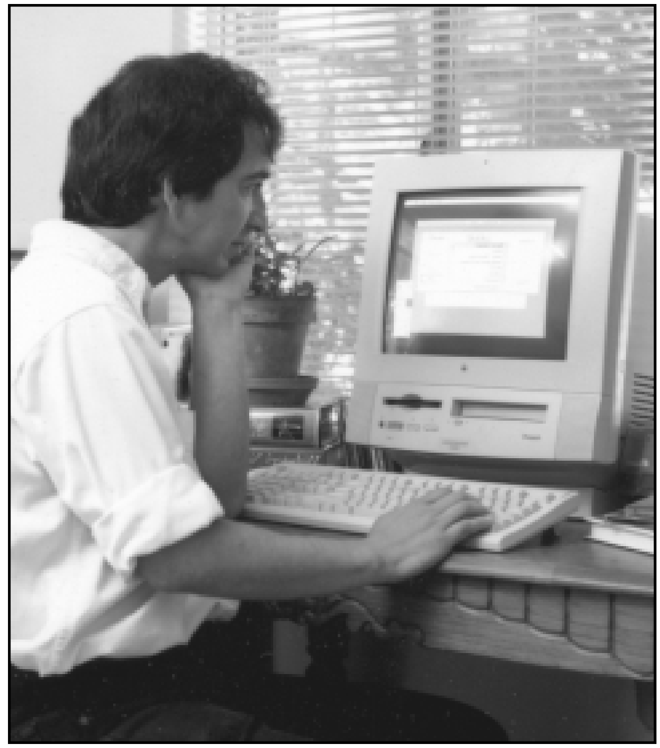
Is there a computer in the house that's hooked up to the Internet? Web browsers—the software that allows the user to navigate the Web—contain a record of what Web sites were recently visited. A check of Web browsers might reveal on-line gambling.

Encourage the gambler's spouse or other loved one to involve himself or herself as much as possible in financial roles that the gambler has traditionally undertaken in the past. A good place to start is the household checkbook. Review current and past household bills. They may reveal stash locations, such as payment for a secret safe-deposit box. Be alert for checks to relatives or friends who may be temporarily holding on to gambling money. Or the "friend" may, in fact, be a bookie.

Advise the gambler's spouse or other loved one to review bank and brokerage statements for assets or more funds than the gambler has revealed.

The loved one also should review recent tax returns. They may reveal W-2 forms, which show wages, or 1099s, which show investment income or freelance income, that the gambler may not have revealed. The returns also may show undisclosed tax refunds or refunds for an amount that was different than what the nongambler was told.

The nongambler should be especially alert for tax information related to a business the gambler owns. The return may reflect more income than the gambler has let on about (though gamblers also are known to underreport income to the IRS).



Creating a Realistic Spending Plan

To get the gambler's financial life under control, he or she will need a "spending plan"—commonly called a budget. A spending plan directs money to where it is most needed. It also helps prevent adding to current debt problems by spending more than is earned.

Equally important, a spending plan establishes savings goals. These goals can provide the gambler something positive to work toward instead of merely digging out of debt. This positive reinforcement encourages the gambler to stick with recovery efforts. The welfare of the family, not debts, should come first in a spending plan.

Here's how to guide the gambler to set up a spending plan.

- **Write out the plan**, either on paper or on a computer program. A sample plan is provided in this guide.
- **List monthly sources of income**. List only income that can be counted on each month, such as paychecks, child support, interest, and Social Security benefits. Income that varies, such as sales commissions, tips, or freelance income, should be averaged on a monthly basis.
- **Extra sources of income**, such as a year-end bonus at work or an income-tax refund, generally should be put only toward savings or investing goals, or to pay for special needs, such as a new car or vacation. (As noted later in this guide, they should not be used to pay off debts.)
- **List basic monthly household expenses**, such as rent or house payments, groceries, utilities, car, child care, and loan payments. If the gambler has agreed to live on a set cash amount, make sure to include that allowance.

Notice that savings is included as a basic expense. Savings should always be treated as a priority, even if debts are high. Treat savings as a basic expense, similar to the mortgage payment or utility bill.

The spending plan should be calculated first without including the debts. Once basic living expenses are covered, any remaining funds can go toward debt repayment. The section, "Repaying Gambling Debts," on page 34, provides a better idea of how much the gambler needs to repay each month.

The gambler may need to recalculate the spending plan and debt payments a couple of times to come up with a realistic plan.

The spending habits of the spouse, partner, or loved one who shares the household budget with the gambler should be carefully reviewed. Sometimes people living with a gambler spend recklessly out of anger or because they fear that money they don't spend will be gambled away.

Spending Plan

Step 1

Identify Income Sources	**Each Month**
Wages after taxes (gambler)	$
Wages after taxes (others in household)	$
Tips/commissions (average each month)	$
Investment income (dividends, interest, etc.)	$
Pension/retirement plan benefits	$
Social Security	$
Unemployment benefits	$
Welfare payments	$
Food stamps	$
Child support/alimony payments	$
Trust fund	$
Other	$
Total Income	**$**

Step 2

List Expenses	Each Month
Rent/mortgage payment	$
Groceries (average)	$
Utilities (average)	$
Telephone	$
Home maintenance/repair (average)	$
Savings	$
Clothing (average)	$
Car payment	$
Car insurance/gas/repairs (average)	$
Other transportation	$
Life/medical insurance premiums (average)	$
Homeowners/renters insurance	$
Medical bills (average)	$
Child care	$
Gambler's allowance	$
Loans/credit card payments	$
Taxes	$
Entertainment (average)	$
Cable TV	$
Meals out (average)	$
Sports activities/events (average)	$
Charitable contributions	$
Gifts (average)	$
Cigarettes/alcohol (average)	$
Long distance telephone (average)	$
Travel/vacations (average)	$
Gambling debts (this guide will explain later why this should be a low priority)	$
Other	$
Total Expenses	**$**

Step 3

Compare Income and Expenses

Total Income (from Step 1)	$ ________
Total Expenses (from Step 2)	$ ________
Subtract Expenses from Income	**$ ________**

Step 4

Make Adjustments

If there is not enough income to cover expenses, you have three choices:

- Earn additional income, such as through a second job or a better-paying job.
- Reduce expenses.
- Reduce expenses and boost income.

Income and expenses change over time. Review the spending plan every few months and make adjustments if necessary.

Tips on Cutting Expenses

The average American household loses 20 percent to 30 percent of its money through poor spending habits. That's money the gambler could put toward savings or paying off debts. Magazine articles, books, and suggestions from the gambler's friends can provide tips for reducing expenses. Sample ideas include:

- sticking to a shopping list
- shopping for bargains and sales
- comparing prices
- using coupons
- eating out less often

Additional tips are offered in Appendix B.

Additional Budgeting Tips

If the household's income varies each month, have the gambler calculate the minimum or average income available to spend each month. In the months the household earns above that amount, bank the extra money. Use the extra income for the months during which income falls below average.

Recommend breaking large periodic bills, such as auto insurance, into smaller monthly amounts. A nongambling spouse or other loved one should put that amount each month into a savings account, or at least as cash in an envelope. If an envelope is used, it should be hidden from the gambler. When the bill arrives, enough money will have been set aside to pay for it.

Advise the gambler to use a small notebook for a month or two to track miscellaneous cash expenses such as coffee or movie tickets. Incorporate this information into the spending plan. It can be shocking

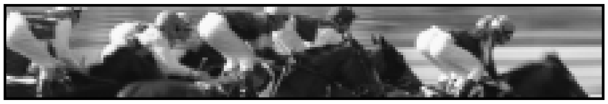
to individuals to see just how much they spend in "miscellaneous" cash.

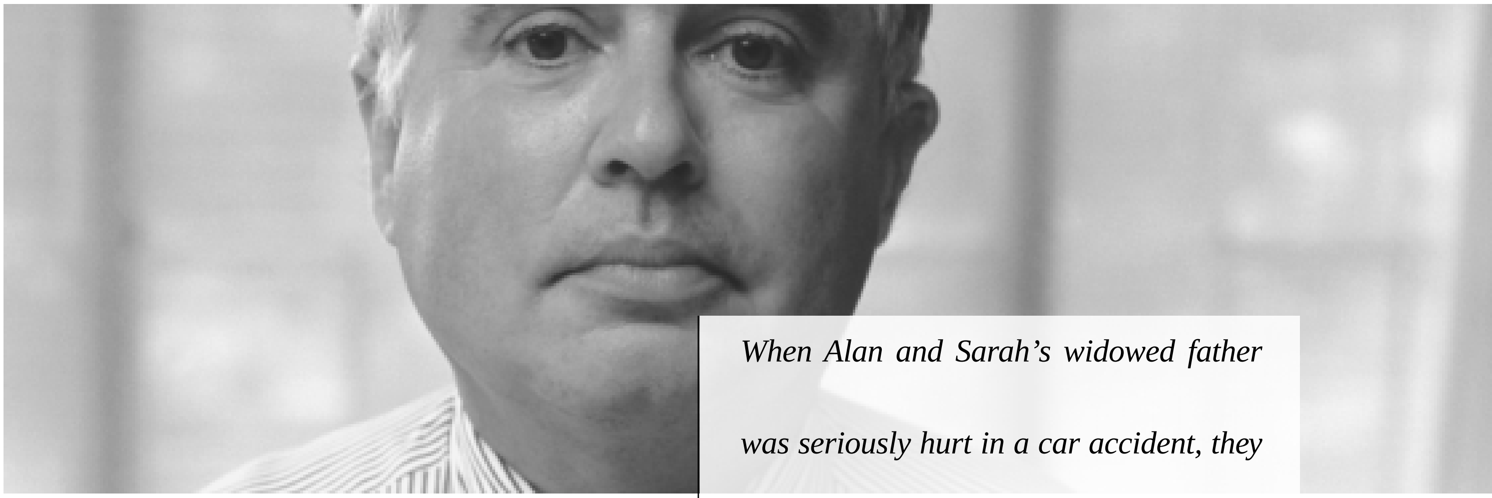
Have the gambler mark on a calendar when bills are due. Bills paid on time improve an individual's credit rating and eliminate the expense of late-payment charges.

Budgeting Monies for Gambling Treatment

The treatment of a gambling addiction can be difficult, time-consuming, and costly. However, most medical insurance policies and managed care providers don't pay for treatment, according to the 1999 National Gambling Impact Study Commission. Some health plan carriers pay for treatment only if the patient suffers from an additional, and often related, disorder such as alcoholism, drug addiction, or depression. Consequently, the gambler may need to pay for treatment out of pocket, and this must be factored into the budget.

If you are a professional therapist charging for your services, gambling clients may ask you to reduce your fees because of their financial problems. Problem gambling experts commonly recommend that therapists don't reduce their fees, as this is seen as another form of bailout.





… they learned he had gambled away most of his earnings.

When Alan and Sarah's widowed father was seriously hurt in a car accident, they took over his finances. To their dismay, they discovered that although he had been a successful dentist for many years, he had minimal medical insurance and almost nothing in savings. That's when they learned he had gambled away most of his earnings. To help him keep his home and to help pay for a home health aide, they had to dig into their own pockets. They both struggled financially for 10 years, during a time they could have been building their own assets, until their father died. To this day, they remain angry at their father.

Limiting the Gambler's Access to Money

Experts commonly recommend that the problem gambler's access and handling of the household's finances and assets be restricted or cut off entirely. This protects the household and benefits the gambler. The spouse, partner, parent, trusted friend or relative, or a third party all can serve as a "roadblock" to the one thing that fuels a gambler's habit—money. The roadblock can be as simple as putting the problem gambler on an allowance, or as extensive as transferring legal control of all assets—bank accounts, investment accounts, even the home and car—into the sole name of the spouse, partner, loved one, or perhaps a trust. However, before taking drastic financial steps, encourage the family to seek professional financial, tax, and/or legal advice.

Establish Controls for Paying Household Bills

One of the first and easiest steps is for a non-gambler, such as a spouse or parent, to assume management of the daily household finances. This includes the payment of all bills. The gambler may assist in the process, such as signing the checks, but only under supervision.

Encourage the nongambling loved one to pay as many bills as possible automatically through a bank or credit union, as well as payments into savings and investment accounts. Paychecks, Social Security, pension payments, and other income should be automatically deposited whenever possible. For income checks that cannot be deposited automatically, the gambler should be encouraged to hand over the checks to a trusted nongambler to deposit into the appropriate accounts.

CAUTION:
A spouse, partner, or close loved one should NEVER restrict or cut off the gambler's access to a household's financial resources if there is any fear that the gambler will become physically or emotionally abusive in an effort to obtain money. Desperate gamblers have assaulted spouses, partners, or other loved ones. Some have committed murder. Gamblers sometimes threaten suicide if they don't get the money, or use the children as ransom.

Just which strategies should be implemented depends on the individual gambler, his or her unique financial situation, and family obligations.

The problem gambler should be encouraged to close the accounts for all credit cards on which the gambler signs. This includes jointly owned cards and cards used for work. Advise the gambler or loved one to obtain written confirmation of all closures. If a credit card is necessary, the nongambling individual may want to open a new account in his or her name only. However, since gambling households commonly are experiencing financial difficulties, the nongambling spouse may want to delay obtaining a new credit card until the household finances have sufficiently stabilized.

Suggest to the problem gambler that he or she agree to live on a set cash amount each week. The nongambler would administer this amount. The cash sum should be sufficient for items such as coffee, snacks, or other common out-of-pocket needs. The gambler should track even these small expenses and account for the money to the loved one before the next week's cash is paid.

Legal Transfer of Assets

Experts often recommend that the gambler transfer legal ownership of some, or even all, of his or her assets to a nongambler. This can raise problems in the event of divorce, separation, physical or mental incapacity, death, or if the nongambler is not a spouse, but it may be a necessary action.

The following are suggestions for ways to transfer ownership or otherwise restrict the gambler's access to the household's financial resources. Just which strategies should be implemented depends on the individual gambler, his or her unique financial situation, and family obligations. **Encourage the gambler to talk over these possible strategies with a lawyer or financial planner before taking action.**

Make the gambler aware that he or she could transfer ownership of assets by taking the following actions:

- Close all joint checking, savings, and investment accounts and reopen them in the sole name of the nongambler spouse, partner, or relative. This should be done even with accounts that currently require dual signatures. (Some gamblers will forge signatures.)
- All paychecks, pension payments, and other income should be automatically deposited in these accounts whenever possible. However, Social Security payments cannot be automatically deposited in accounts that don't contain the name of the recipient.

- It may be appropriate to transfer ownership of a home, cars, vacation property, and other valuable personal property so that the gambler can't convert these assets to cash. However, some treatment professionals feel the transfer of property such as the home is too severe for most problem gamblers, and may be emotionally counterproductive.

- Transfers of ownership are treated as gifts under tax law and may be subject to tax. Generally, gifts between spouses are not taxable. However, property that exceeds a certain value ($10,000 in 2000) may be subject to tax if transferred to nonspouses such as children, a partner, relative, or friend. This problem can be eliminated by the proper use of a trust.

- Ownership of the gambler's retirement accounts and IRAs cannot be transferred to another person. The gambler can withdraw the money from IRAs and similar accounts under certain circumstances and put it into the name of another individual or trust. However, the funds would no longer grow tax-free and they also would probably be subject to taxation and perhaps penalties (see "Tax Issues" on page 37). This is a drastic action, and potentially expensive, but if there is danger the gambler will blow the money gambling anyway, it may be a step to consider.

- If both spouses or partners are gamblers, they should consider turning control of their assets over to a relative, such as an adult child.

The Use of Trusts

Trusts are legal entities for controlling property. For example, a gambler might put assets, such as stock or cash, into an irrevocable trust, which means the gambler permanently gives up control of the assets. A spouse, partner, trusted friend, or relative might serve as trustee. The trustee would manage the assets for the benefit of the trust's beneficiary (the gambler's family, for example). A family with a problem-gambling son, for example, might put assets into a trust when they die. The trustee would parcel money out to the son so he couldn't gamble away his inheritance all at once.

Gamblers who have pushed away family, friends, and loved ones could use a third-party trustee, such as a bank trust department, attorney, or financial planner.

Trusts can be complicated and they cost money. However, for some situations, particularly if significant assets are involved, a trust may be appropriate.

Problems and Risks of Shifting Ownership

Transferring ownership and control of financial accounts and other property entails a variety of financial problems and risks for both parties. For example, what happens if the gambler's spouse dies or divorces? What claims, if any, does the gambler have to the property put into the spouse's name? What's to prevent a partner or relative from simply spending money and assets the gambler has legally transferred to them?

That's why it's important to strongly encourage the gambler to discuss any transfers with everyone involved, especially legal counsel, before taking action. A knowledgeable lawyer will understand these risks and may be able to recommend strategies for limiting the risks.

The gambler and his or her loved ones also need to become familiar with the state's property ownership laws. The gambler also should check with his or her bank, brokerage firm, mortgage

A gambler can "win big" by wiping out his or her retirement nest egg or a college education fund.

company, insurance company, and other financial institutions regarding their policies toward ownership transfers, power of attorney, and similar strategies.

Large Sums of Money

"Winning" a large amount of money is often very bad for a problem gambler. These large sums of money are seen as a quick way to pay off gambling debts or to feed additional gambling.

Winning doesn't always happen at the casino, racetrack, or the lottery. A gambler can "win big" by wiping out his or her retirement nest egg or a college education fund, siphoning off the cash value accounts of life insurance policies, raiding business accounts, taking out a home-equity loan, or squandering an inheritance.

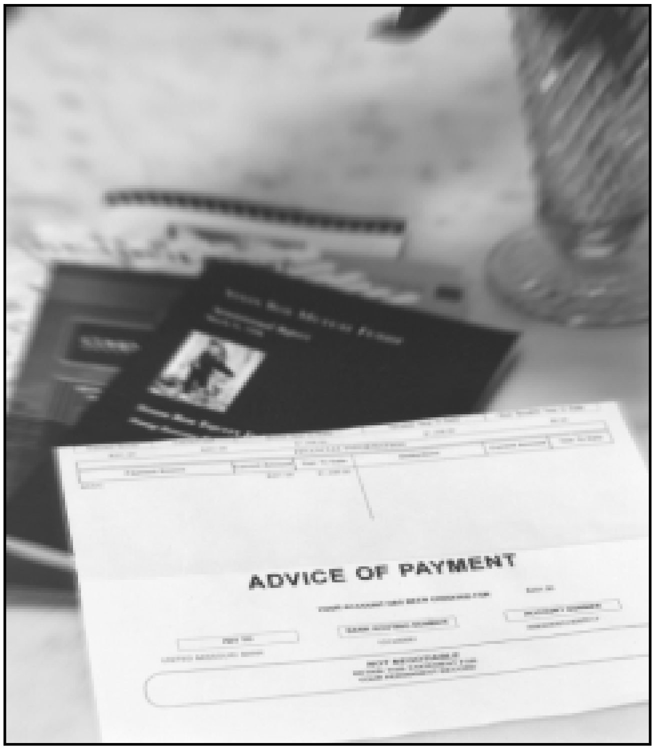
The following paragraphs list several potential sources of large sums of money that could be tapped for gambling. The financial consequences of using these sources are explained, and in some cases suggestions are made for minimizing the gambler's access to the funds.

Retirement Accounts

The gambler who raids retirement accounts for gambling funds subjects those withdrawals to income and penalty taxes. In addition, the money taken out can no longer grow tax deferred. Over a long time, these lost earnings could run into the thousands … tens of thousands … even hundreds of thousands of dollars. Thus, the gambler may have to face the possibility that he or she can never afford to retire.

Mortgage Refinancing or Home Equity Loans

If the gambler fails to repay the loan, he or she could lose the family's home. One way to reduce this risk is for the gambler to transfer ownership of the home so he or she doesn't have access to loan monies.



Traditional Pension Plan

When leaving a job or retiring, workers with a traditional company-paid pension plan may have the choice of taking the money in a single lump sum, in annuitized monthly payments, or rolling it over into another pension plan or an IRA. For households with a problem gambler, monthly annuity payments usually are the better option if the individual is retiring. That way, only one monthly payment at a time is put at risk, not an entire lump sum.

Inheritances

Several options are available, and the gambler should consult a lawyer. The inheritance could be put into a trust managed by a trustee. Someone else could be named as beneficiary instead of the gambler. Or the gambler could “disclaim” an inheritance. The money would then go to another heir, such as the gambler’s children.

Investment Accounts (Nonretirement)

If the gambler’s name appears on an account or as a joint owner of the account, or even as a custodian of an account, he or she can access the funds in that account. For example, the gambler may have set up a Uniform Gift to Minors Act (UGMA) account for a child. But if the gambler is named as the custodian, the gambler could still raid the funds in the account and harm the child’s financial future.

Gambling Winnings

The problem gambler should no longer be “in action,” so there should be no large gambling winnings. However, if money is still left from previous gambling, it should not be used to pay off debts. It should be put toward household bills, or perhaps into an irrevocable trust managed by a loved one.

Lottery Winnings

Lottery winners can “sell” their annuity payments for a discounted lump sum. Gamblers should avoid this, unless the proceeds are to be placed in a trust. A trustee can then control the use of the funds for the needs of the gambler or the gambler’s family.

Civil Settlements

Lawsuit judgments for such things as injuries or death in a car accident, workman’s compensation, or product claims may be paid out in a lump sum or in periodic payments known as a structured settlement. Structured settlements generally should be preferred for problem gamblers, unless a trust will be used.

Repaying Gambling Debts

The problem gambler is likely to have accumulated gambling and other debts. These debts would commonly be considered “excessive” if more than 15 percent to 20 percent of monthly take-home pay goes toward nonmortgage debt, such as credit cards, car loans, and of course, gambling debts.

The debts may be a major cause of friction and worry in the household. Creditors may be knocking at the door. Mounting debts may be what prompted the gambler to “face the music” and seek a gambling recovery program and financial relief. Relieving the debt burden can help reduce the problem gambler’s anxiety and guilt, and help in the gambler’s recovery efforts.

But, debt repayment must be done in a way that is different from how a nongambling household normally would reduce debt. Otherwise, the debt problems might actually become worse. Here are some guidelines.

Determine Amount of Debt and List Creditors

Have the gambler write down and total all current nongambling debts, such as:

- car loans
- credit cards
- home-equity loans or second mortgages
- furniture loans
- department stores
- payday loans
- bank loans
- medical bills
- utility bills
- back taxes
- child support
- education loans

Also have the gambler list and total all gambling debts. The gambler should list who is owed and how much. Besides bookies and gambling establishments, this might include friends, family members, relatives, employers, co-workers, and business partners.

The gambler may be reluctant to acknowledge all the debts, or may even have forgotten some.

The gambler may have raided household funds, such as savings accounts or a vacation fund. These funds are "owed" and should be repaid.

The gambler may be reluctant to acknowledge all the debts, or may even have forgotten some. Try to work with the nongambler loved one to verify all debts as accurately as possible.

Clarify what debts the gambler alone owes, and what debts are owned jointly with a spouse or other party. This will depend on the state's debtor laws. Generally, if someone has co-signed a loan or contract with the gambler, he or she is equally liable for the debt. In other words, joint names on an account equal joint responsibility to pay the debts on the account—no matter which person ran up the bill. (You may want to remind the nongambler of this point since the nongambler may opt to take his or her name off the account.)

If only one name is on an account, then only that person is responsible for the debt. In the case of joint tax returns, both parties usually are liable for back taxes (see "Tax Issues" on page 37). The nongambling spouse is liable for all debts incurred as a couple. Separation or divorce does not remove any jointly owned debts, but debts incurred by the gambler after divorce are solely the gambler's responsibility.

Establish a Debt Repayment Plan

Start first with the monthly household budget created earlier. Part of that budget should have tentatively set aside money to repay gambling and nongambling debts, though the amount may need to be readjusted after creating a repayment plan.

Next, work with the gambler (and possibly his or her loved ones) to determine how much the gambler can afford to pay each creditor. Consider involving a financial advisor or credit counselor in this process. The way to do this is to divide the total amount of money that can be put toward debts each month by the total amount of the debt. For example, the gambler can afford to pay $600 each month toward debts and debts total $12,000. The gambler can thus pay off 5 percent of the debt each month ($600/$12,000).

Apply this 5 percent toward each individual creditor. Say $3,000 is owed on a particular credit card. The gambler would then pay $150 each month to that credit card (interest charges would continue to accumulate, making the final total more than $3,000). Calculate this for each creditor (including debts owed to the household).

The gambler should then go to each creditor to explain that there is a debt problem, that he or she intends to fully repay the debts, but that he or she will need to make reduced payments. Creditors usually will be agreeable to this since they'd rather get their money back slowly than to not get it back at all.

The problem gambler should be the person in the household to directly contact the creditors. This is a way for the gambler to take personal responsibility for his or her actions. The exception to this is if they work through a debt counseling service. Typically, debt-counseling services negotiate with creditors for lower interest rates, waived late fees, and a repayment schedule. The gambler makes single monthly payments to the service, which in turn distributes the money to the creditors.

Here are some other points to remind the gambler about when he or she is creating a repayment plan:

- **Avoid quick repayment of debts, especially gambling debts.** Although this means higher total interest payments, slower, lengthy repayment reminds the gambler of the nightmare his or her addiction has created. You don't want the "monkey off their back" too quickly.

- **Avoid loan consolidations or refinancing a home.** They may only embolden the gambler to return to betting and pile new debt on top of old.

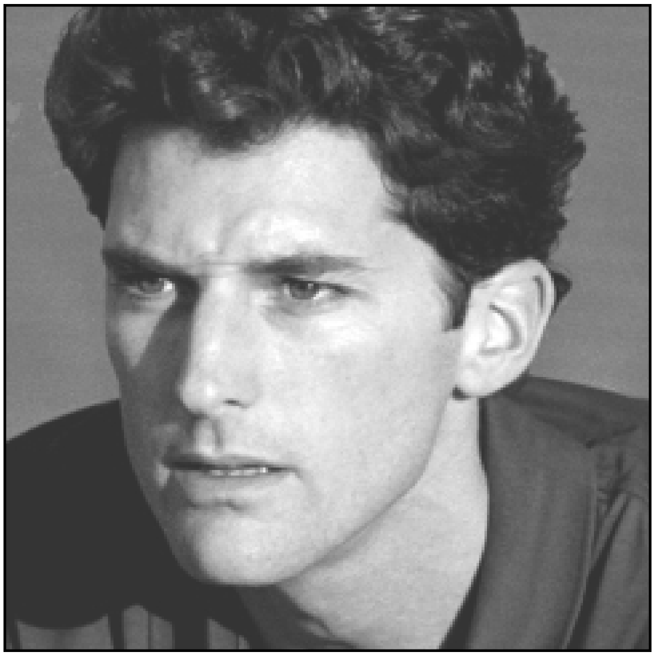
- **Some debts may require a higher priority than others.** Some creditors may not accept reduced payments. Creditors with secured loans, such as a car loan, may threaten to repossess the property. The gambler would not want to lose the car that gets him or her to work.

Gamblers and their loved ones often differ over the priorities for paying off debts. The gambler might worry about the loan shark, while the spouse

is worried about the utility bill. A third party, such as a debt counseling service, financial advisor, or treatment professional can provide a neutral perspective. However, a debt counseling service may not understand all of the issues that accompany problem gambling. For example, many gambling experts feel that if debts must be prioritized, gambling debts should be given a low priority. Debt counseling services don't always agree with this approach.

Advise the problem gambler to revisit his or her budget every few months or so to see if more money can be freed up for debt repayment. Another option may be for the gambler to take a second job specifically to pay off gambling debts. Again, this strategy must be weighed along with the gambler's family obligations, if there are any.

Gamblers often underreport their income. If the IRS catches them, it will assess back taxes, penalties, and interest.

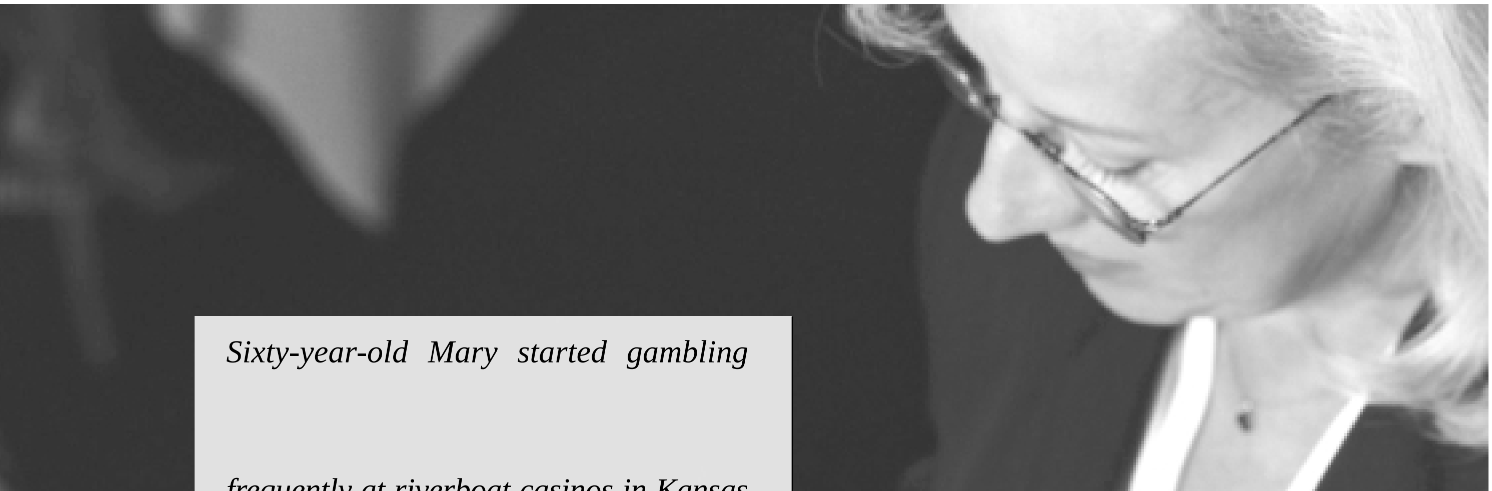


It's important to remind a spouse, partner, or other loved one that he or she should never put money toward the gambler's debts! The gambler must take full responsibility. Also, as you monitor the gambler's progress toward debt repayment, be alert to a possible return to gambling.

Tax Issues

Problem gambling can create a number of tax headaches. A tax specialist, financial planner, or other professionals can provide a definitive picture of your client's potential obligations, but here are some general points to keep in mind.

- Gamblers often owe back income taxes, resulting in additional penalties and interest charges. As a general rule, income taxes are not forgiven by filing for bankruptcy.
- Gamblers often underreport their income. If the IRS catches them, it will assess back taxes, penalties, and interest. The spouse filing jointly with the gambler may not be liable for these charges if the spouse had no knowledge and had no reason to have knowledge of the underreporting.
- Although the gambler ideally should have stopped gambling at this point, taxes may be owed on previous winnings. Gamblers can deduct losses up to the amount of their winnings if they itemize their tax returns and if they keep acceptable records of their losses (diary, losing tickets, receipts). However, problem gamblers often don't keep good records because they usually try to hide their gambling habit. Unless the gambler has carefully documented losses, he or she won't be able to write off losses against any wins. The result is a higher than necessary tax bill.
- Money pulled out of tax-deferred retirement accounts to pay for gambling or gambling debts is subject to regular income taxes. Gamblers younger than age 59½ probably will have to pay an additional 10 percent early withdrawal penalty.



Sixty-year-old Mary started gambling frequently at riverboat casinos in Kansas City within a year after her husband died. Despite winning several jackpots, she lost more than she won. Within a short time, she gambled away her husband's life insurance payout, his $50,000 annual pension, and her Social Security payments. In addition, she racked up $85,000 in debt on 14 credit cards. She was forced to file for bankruptcy.

Within a short time, she gambled away her husband's life insurance payout, his $50,000 annual pension, and her Social Security payments.

Declaring Bankruptcy is a Last Resort

A gambler's odds of declaring bankruptcy are significantly higher than households without a gambling problem. Some estimates say one in five problem gamblers eventually file for bankruptcy.

Problem gamblers typically view bankruptcy as an easy way to bail out of their debts. However, as was emphasized earlier in this guide, all debts should be repaid—and repaid slowly—as a way to remind the gambler of the financial nightmare he or she has created.

Also, despite the common public view to the contrary, bankruptcy stains a person's financial records for years, making financial recovery that much more difficult. In addition, studies have shown that four out of five people who file for personal bankruptcy fall back into financial trouble within a few years.

A sensible debt repayment plan should resolve debt issues in most cases. However, sometimes the only realistic way out of debt is to declare personal bankruptcy. Advise the gambler that he or she should not take this route until all other options to pay off debts have been explored and the gambler has talked to an experienced bankruptcy lawyer and other financial advisors.

For your own knowledge, it may be helpful to know that personal bankruptcy comes in two basic forms: Chapter 13 and Chapter 7. Both are filed for and carried out under the direction of a bankruptcy court. Here is a brief description of the two forms of personal bankruptcy.

- **Chapter 13.** This is often called the "workout plan." It allows you to repay creditors over time while preventing creditors from seizing your property. Experts feel that Chapter 13 works best for people who have regular income and substantial assets. This form of bankruptcy stays on your credit record for seven years.
- **Chapter 7.** This is the more serious form of bankruptcy. It allows you to wipe out most of your debts and start over. Debts it doesn't erase include back federal taxes, child support, alimony, and most student educational loans. Also, in the future, there may be more types of debts that won't be erased by a Chapter 7 bankruptcy. Under Chapter 7, you must sell off much of your personal property. What property you can keep varies from state to state, but typically includes clothing, a car, furnishings, life insurance (but not necessarily the cash value in a policy), retirement funds, and tools of your trade. Usually your home is protected, but not always. Chapter 7 bankruptcy stays on your credit record for 10 years.

Being Alert to Life Events

Watch out for changing, stressful events in the gambler's life. These stresses can cause the recovering gambler to return to gambling. Below are what some experts consider the top 10 most stressful events in the average person's life. Note that some of these events even are "positive" situations.

1. death of a spouse
2. divorce
3. marital separation
4. jail term
5. death of a close family member
6. personal injury or illness
7. marriage
8. fired from work
9. marital reconciliation
10. retirement

Source: T.H. Homes and R.H. Rahe, "Social Readjustment Rating Scale," *Journal of Psychosomatic Research*, 1967, pp. 213-218.

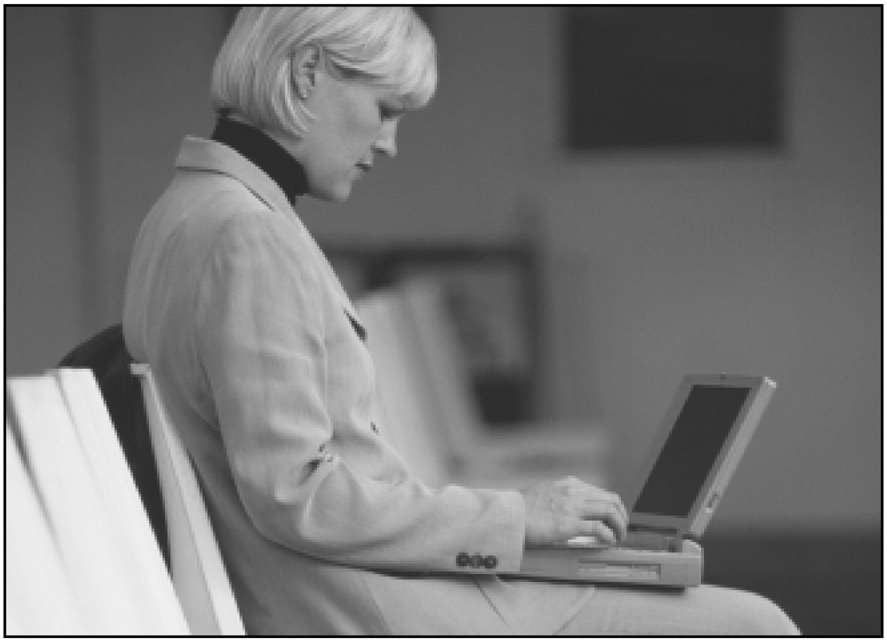
Working with Family Members

The success of a financial recovery plan will likely depend in part on the cooperation of family members and loved ones, especially a spouse. However, the psychological dynamics of those around problem gamblers can be as destructive as the gambler's, and may sabotage financial recovery efforts.

A few key points to keep in mind:

- Surprisingly, families and relatives often are in the dark about the gambler's problem until finances are out of control.
- Family members aware of a gambler's problems frequently think they can control the gambler's problem, or they may actually enable the gambler to continue his or her addiction.
- Family members may have developed their own bad money management habits in response to the problem gambler.
- Confidentiality must be respected. The gambler's reckless behavior may be financially harmful to other family members, relatives, friends, business partners, or employees. However, you, as the counselor, are ethically obligated not to disclose client information to others without the client's written consent.

It has become easier today to gamble with stocks, bonds, commodities, and other securities



Wall Street as Riverboat Gambling?

Not all problem gamblers today play video poker, the lottery, or slot machines. Some "play" the stock market and, unfortunately, approach the financial market with the mentality of a gambler.

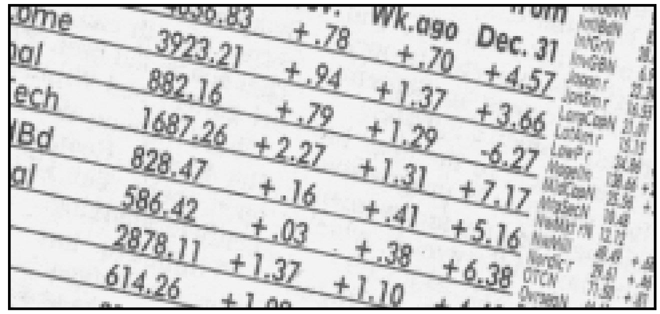
All forms of investing involve risk—some forms more than others—and the problem gambler (mainly "action" gamblers) can find this risk as addictive as a game of high-stakes poker. For one thing, it has become easier today to gamble with stocks, bonds, commodities, and other securities than with traditional sources of family wealth—the home and real estate.

On-line access also has made market gambling easier, faster, and cheaper. Day trading is the prime example, say experts. Day trading is when investors buy and sell stocks dozens, even hundreds, of times a day, often knowing nothing about what they are trading—glued to their computer screens much like a gambler glued to a video poker machine. The vast majority of day traders lose money—in some cases losing their homes and all their financial assets.

Even gamblers who don't "gamble" on the stock market, but who have investments, are vulnerable. In a desperate need for gambling cash, they may sell investments during a down market, much as they would sell a car for a fraction of its value just to get the cash. This means a double loss—the investment loss and the loss of the money they gamble away.

Warning Signs of an Investment Gambling Problem

Paul Good, a clinical psychologist in San Francisco who has been studying gambling and investing, has developed 11 warnings signs, based on DSM-IV criteria for problem gambling, that may reveal whether an investor is actually a gambler in disguise. Manifesting five or more of these signs may indicate a gambling problem.



1. high volume trading in which the "action" has become more compelling than the objective of the trade
2. preoccupation with one's investments (for example, excessive studying of investment newspapers or guides, thoughts about the market that intrude on consciousness, constant calls to one's broker)
3. needing to increase the amount of money in the market or the "leverage" of one's investments (for example, using options or futures contracts, borrowing on margin) to feel excited
4. repeated unsuccessful efforts to stop or to control one's market activity (for example, drawing on accounts previously declared "off-limits," contradicting or changing limit orders on losses or gains)
5. restlessness or irritability when attempting to cut down or stop market activity, or when cash is accruing in one's account
6. involvement in market activity to escape problems, relieve depression, or distract oneself from painful emotions
7. after taking losses in the market, continuing to take positions or increasing one's position as a way of getting even—that is, chasing one's losses
8. lying to family members and friends to conceal the extent of involvement in the market
9. committing illegal acts, such as forgery, fraud, theft, or embezzlement, to finance market activity
10. jeopardizing significant relationships, job, or educational or career opportunities because of excessive involvement in the market
11. relying on others to provide money (bailout) to relieve a desperate financial situation caused by gambling in the markets

Because of the financial risk, the addictive nature, and the easy access to markets these days, some experts believe problem gamblers should never invest.

Pros and Cons of the Gambler as 'Investor'

Because of the financial risk, the addictive nature, and the easy access to markets these days, some experts believe problem gamblers should never invest. They view the stock market as a breeding ground for problem gambling and the New York Stock Exchange and the NASDAQ as the largest casinos in the world.

Other gambling experts, and most financial advisors, disagree. They argue that investing, like saving for a vacation or a car, gives gamblers a positive focus for their money. It teaches them to once again "value" money. Perhaps more important, they argue, investing has become a financial necessity for most households today—gambling households included. Achieving such goals as a comfortable retirement, sending children to college, starting a business, or meeting other major financial goals usually can be accomplished realistically only through a sound investment program.

A person doesn't stop eating just because they have an eating disorder, and gamblers shouldn't stop investing just because they are addicted to risk. Most problem gamblers who have abstained from gambling for a while, and who ideally are in recovery programs, should be able to invest as long as the investing program is reasonable, argue proponents.

Financial Resources

While you can provide valuable assistance to the problem gambler in his or her efforts to recover financially, it may be beneficial or necessary for the gambler to consult with appropriate financial professionals. These professionals might include financial planners, debt counselors, and lawyers who have experience in credit as well as financial transactions and legal issues. Establish a referral list by identifying appropriate financial professionals who are familiar with the dynamics of problem gambling and its unique financial challenges. You can further enhance this list and strengthen the referral process by developing professional relationships with these financial experts in advance.

You may or may not be familiar with the roles that various financial professionals play. It's often confusing, in fact, because the roles are frequently closely related or they may cross over. Here's a brief guide to some of the more likely financial professionals you might work with.

Tax Accountants. The accountant can help the gambler with some of the tax issues created by gambling. Some accountants offer additional financial services, such investment advice and other financial planning concerns.

Estate Lawyers. The gambler may need to consult a lawyer regarding the advisability and the logistics of shifting of ownership of assets to nongamblers. A lawyer also would be needed to prepare any legal documents required to implement ownership changes and set up trusts.

Debt Counselors. These professionals not only can help the gambler construct a realistic debt repayment program, but can help the gambler design a workable budget necessary to free up money to pay off debts.

Financial Planners. Qualified financial planners examine a household's overall financial situation—not just one aspect of it—and recommend strategies for improving the situation. The planner might help the gambler set an effective budget, design a debt repayment program, create strategies for protecting assets from the gambler, and help set clear, achievable goals—especially important in a household recovering from a gambling problem. Planners also can provide advice on taxes, insurance needs, investing, and estate planning. A planner will work with other financial professionals to ensure that the gambler's financial recovery goes as smoothly as possible.