How Am I Doing? Financial Well-Being, Its Potential Antecedents, and Its Relation to Psychological / Emotional Well-Being

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This paper develops a model of financial well-being. Financial well-being is composed by current money management stress and future financial security. These two constructs explain about a third of variation in overall well-being. They are predicted by different traits and behaviors suggesting promising avenues for improving financial and overall well-being.

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How Am I Doing? Perceived Financial Well-Being, Its Potential Antecedents, and Its Relation to Overall Well-Being

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EXTENDED ABSTRACT

The effect of financial education interventions is limited (Fernandes, Lynch, and Netemeyer 2014). Financial literacy has a very small effect on financial behavior. The effect of financial literacy is even lower among low-income groups who are the ones most in need for interventions to improve their financial health.

Financial matters are a problem for many consumers. The Pew Research Center (2015) reports that 55% of American households can replace less than one month of their income through their savings, and a 2016 PWC study found that 45% of employees stated that personal financial matters cause them the most stress in their lives; more stress than their jobs, health, or relationships combined.

Therefore, consumer researchers need to develop interventions and nudges that improve financial well-being. However, very little is known about what drives financial well-being and downstream implications posing a problem for policy makers about how to improve financial well-being of people.

The lack of an accepted definition of this construct and little systematic examination of its antecedents and consequences hampers efforts to address financial well-being and its role in general well-being. From a narrative qualitative procedure and five survey-based studies, the objectives of this research are to: 1) define the construct of financial well-being; 2) posit a framework of its antecedents and its relationship to the consequence of general well-being; 3) develop and validate a measure of financial well-being (Studies 1-3); and 4) empirically test the framework (Studies 4 and 5).

We had access to qualitative research from the CFPB (2015). They interviewed 59 adult consumers. Interviews were transcribed, sorted, coded, and then catalogued using computer-aided qualitative data analysis software. Building from existing literature and this qualitative data, we conceptualize financial well-being as two separate, but related, constructs: 1) stress related to the management of money today (current money management stress); and 2) a sense of security in one's financial future (future financial security).

Using three survey studies, we developed measures of these constructs and demonstrated predicted correlations with other constructs in the nomological net. We reduced the number of items to 10 (five for each construct of the scale).

With two additional studies (Study 4 and Study 5), we offered and supported a model of potential antecedents and consequences of current money management stress and future financial security. Importantly, we demonstrated that current money management stress and future financial security are influenced by different antecedents, but shared the same outcome of well-being. As such, the primary thesis of this paper relates to the interplay of stress about money matters today and a sense of security about a financial future in producing feelings of financial well-being and, ultimately, emotional / psychological well-being.

Current money management stress was predicted by traits and behaviors that are negative and more short-term oriented: making only minimal payments, lacking in self-control, and being materialistic. Behaviors and traits that reflect longer-term thinking, such as planning for money long-term and a willingness to take investment risk, were related to future financial security. Current money management stress and perceived future financial security had the predicted effects on well-being. Finally, we found that within the battery of controls in the model, financial literacy showed a small negative partial effect on perceived future financial security, and had no effect on money management stress. This finding is consistent with existing literature on the lack of relationship between financial knowledge and financial outcomes.

The measures we developed are reliable, valid, and brief. These measures could be used by a variety of agencies and firms specializing in savings and retirement to gauge how consumers are feeling about their current and future financial situations, relate these measures to what consumers are actually doing, and then advise those who feel stressed or insecure about their financial future. The constructs and measures developed here would allow prioritization of interventions based on the relative opportunity with the present and future dimensions of financial well-being.

The results raise the issue of whether interventions aimed at reducing materialism and improving self-control would reduce current money management stress. In addition, whether training in planning for money, self-efficacy / ability, and willingness to take investment risk would enhance future financial security. The answer is "possibly". Though materialism is a trait/value likely internalized early in life (Richins 2004, 2011), there is evidence that some traits like self-control are malleable into early adulthood (Moffitt et al. 2011). Thus, school-based training / interventions designed to increase self-control with money may be worthwhile (Pathak, Holmes, and Zimmerman 2011). Similarly, financial skill, willingness to take investment risks, and planning for money are skills that can be acquired (Hader et al. 2013; Perry and Morris 2005).

Financial education efforts in these domains may be at least as effective, if not more so, than acquiring content knowledge about interest rates, bonds, etc. (Fernandes et al. 2014). Thus, designing and testing programs to increase financial skill, willingness to take investment risks, and planning for money leading to intended changes in future financial security seem to be worthwhile undertakings for academics and policymakers alike (CFPB 2015).

The measures developed in the present research – future financial security and money management stress collectively explained 33% (Study 4) and 39% (Study 5) of the variance in well-being. Recall that prior to our studies, we found little evidence examining the financial well-being / psychological well-being linkage. We also observe that the effect of current money management stress on well-being is stronger for low-income individuals, and that the effect of future financial security is stronger for younger individuals. Therefore, specific interventions aimed at current money management for low-income individuals or future financial security for younger individuals are more promising at improving the well-being of these individuals.

This study represents only an initial investigation of what traits, behaviors, and circumstances produce higher or lower levels of well-being and the implications of financial well-being for overall well-being. It is our intent that the concepts and findings presented here will instigate additional work and ultimately lead to a working model driving policy and program decisions.

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