

Development and Testing of a Comprehensive Financial Well-Being Measure

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Research background

In 2021, 56% of U.S. adults reported feeling anxious when thinking about their personal finances. 52% with greater than median income (\$50-99K) reported feeling anxious, indicating that financial anxiety is not just a matter of lack of assets.

1. What is financial well-being? Which key aspects define it?
2. What questions best assess each aspect of financial well-being?
3. How does our financial well-being score compare to financial behavior and other well-being indicators?

Contribution

Development of a new measure that is novel in three ways:

1. Is based on microeconomic theory
2. Includes both objective and subjective measures of well-being
3. Is comprehensive as it considers access to informal financial support networks

The development of financial well-being score questions was informed by theory, analysis of already existing scores, and in-depth interviews with experts in this field.

Tested with two rounds of survey data collected using a nationally representative panel.

Key takeaways

The 10-item financial well-being score

1. Differentiates well across the full spectrum of financial well-being
2. Aligns with other indicators assessing financial situations and money management
3. Depicts financial distress
4. Compares well with but seems to provide a more refined measure than a broadly-used existing scale
5. Is highly linked to financial literacy

Definition of financial well-being

We define financial well-being as *being and feeling financially secure in the short and long term and having the financial freedom to make choices that allow one to enjoy their life.*

Building blocks of financial well-being:

- A. Making ends meet
- B. Coping with shocks
- C. Managing debt
- D. Planning for the long term
- E. Having access to a financial support network

Financial well-being questions (1)

| Building Blocks of Financial Well-Being | Financial Well-Being Questions | |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Objective | Subjective |
| A: Making ends meet | <p>In a typical month, I am able to make ends meet.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> | <p>I'm satisfied with the way I handle my day-to-day finances.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> |
| B: Coping with shocks | <p>How confident are you that you could come up with an amount roughly equivalent to your monthly paycheck if an unexpected need arose within the next 30 days?</p> <p><i>[1 not at all confident; 2 slightly confident; 3 somewhat confident; 4 moderately confident; 5 very confident]</i></p> | <p>In thinking about my current household's finances, I feel financially secure.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> |

Financial well-being questions (2)

| Building Blocks of Financial Well-Being | Financial Well-Being Questions | |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Objective | Subjective |
| C: Managing debt | <p>My household's current debt and debt payments prevent me and others in my household from addressing other financial priorities.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> | <p>I'm comfortable with the amount of debt my household has.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> |
| D: Planning for the long term | <p>I am set up for long-term financial security.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> | <p>I feel financially secure for the future.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> |

Financial well-being questions (3)

| Building Blocks of Financial Well-Being | Financial Well-Being Questions | |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Objective | Subjective |
| E: Having access to a financial support network | <p>How confident are you that you could rely on a network of family and friends for support in the event of financial distress?</p> <p><i>[1 not at all confident; 2 slightly confident; 3 somewhat confident; 4 moderately confident; 5 very confident]</i></p> | <p>[introduction question] Q1. How important is it for you to have a network of family and friends for financial support?</p> <p><i>[1 very important; 2 moderately important; 3 not important]</i></p> <p>Q1a. [Asked only if answered <i>very important</i> or <i>moderately important</i> to Q1] Because I know that I could rely on my network of family and friends for financial support, I feel much more financially secure.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> <p>Q1b. [Asked only if answered <i>not important</i> to Q1] I feel financially secure because I know that I can cope on my own with unexpected expenses.</p> <p><i>[1 strongly agree; 2 somewhat agree; 3 neither agree nor disagree; 4 somewhat disagree; 5 strongly disagree]</i></p> |

Questionnaire

- For each building block, the **subjective** question was asked first and the objective question was asked second.
- Important to avoid the objective question affecting the response to the subjective question (respondent's perception of their financial situation).
- **Debt** questions were asked last to prevent debt worries from negatively influencing responses to the subsequent questions.

Datasets

- Pilot survey to validate the financial well-being questions (500 obs)
- Full survey (2,000 obs)
- Fielded in January/February 2023
- YouGov Direct, a market research and data analytics firm
- All statistics use sampling weights which makes our results nationally representative of the U.S. population
- Comparison to 2021 NFCS shows that our samples align well, with only small differences: our samples are slightly skewed toward older individuals, individuals with only a HS degree or less, and individuals not in the labor force

Analysis of individual well-being questions (1)

| | Total population |
|--------------------------------------|------------------|
| <i>A: Making ends meet</i> | |
| Able to make ends meet | 79% |
| Satisfied with day-to-day mgt | 77% |
| <i>B: Coping with shocks</i> | |
| Able to cover an emergency expense | 41% |
| Feeling financially secure currently | 45% |
| <i>C: Managing debt</i> | |
| Not constrained by debt | 44% |
| Comfortable with amount of debt | 47% |
| Total Observations | 1,723 |

- Short-term money management might not be a high barrier to financial well-being.
- Only around 40% were confident that they could cover an emergency expense and reported feeling secure with their current financial situation.
- Similar findings for debt, because we ask about being debt constraint. Likely no capacity to save or ability to cope with financial shocks.

Analysis of individual well-being questions (2)

| | Total population |
|--------------------------------------------------------|------------------|
| <i>D: Planning for the long term</i> | |
| Set up for long-term security | 35% |
| Feeling financially secure future | 38% |
| <i>E: Having access to a financial support network</i> | |
| Able to rely on network | 27% |
| Network very/moderately important | 65% |
| Feeling secure bc of network** | 35% |
| Network not important | 35% |
| Feeling secure bc own capacity** | 59% |
| Total Observations | 1,723 |

- Only 27% are very or moderately confident that they could rely on a network of family and friends.
- Comparable percentage of those who deem an informal financial support network to be important said they feel more financially secure because they know they could rely on their network.

**Proportion conditional on whether the respondent values a network of family and friends for financial support (Network very/moderately important or not important, respectively).

Individual well-being questions across demographics (1)

Three main observations:

1. **Women** score lower than men on both the objective and subjective financial well-being questions across most building blocks.
 - In line with existing research.
 - However, women are significantly more likely to report that they can rely on an informal support network and value it more highly than men.
 - Do networks compensate for lower objective and subjective financial well-being?



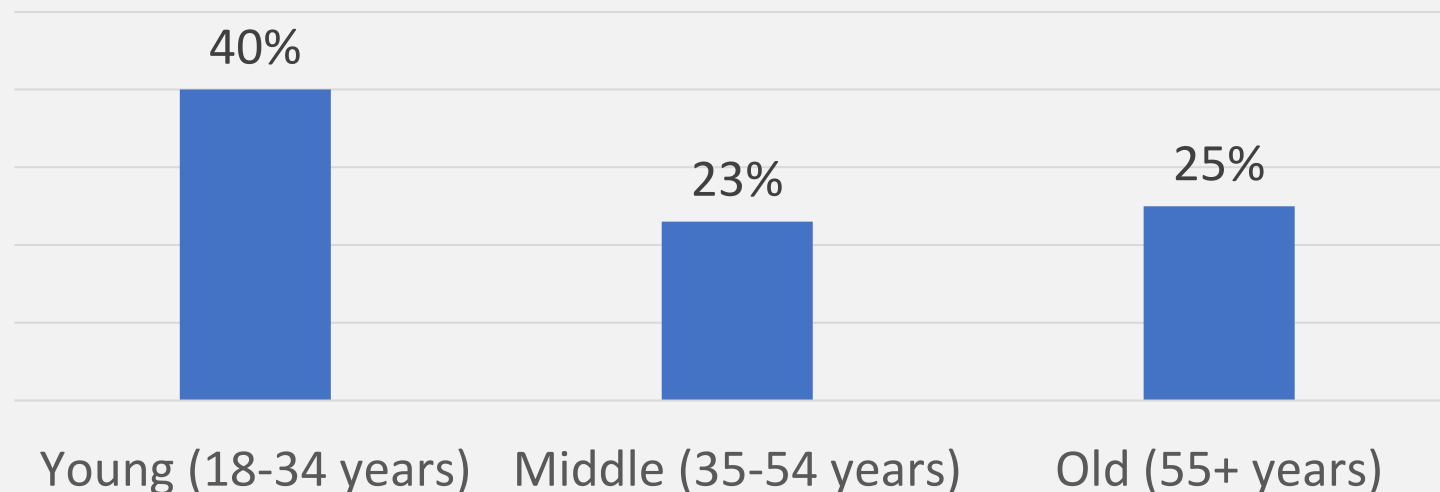
Individual well-being questions across demographics (2)

2. **Younger adults** seem to struggle more across most building blocks but a higher percentage can rely on family and friends in case of financial distress.

- Not surprising, still in college or early in their careers and likely benefit from parental financial support
- While at the same time carry student debt and are still too early in their careers to have a substantial amount of savings.



Able to rely on network



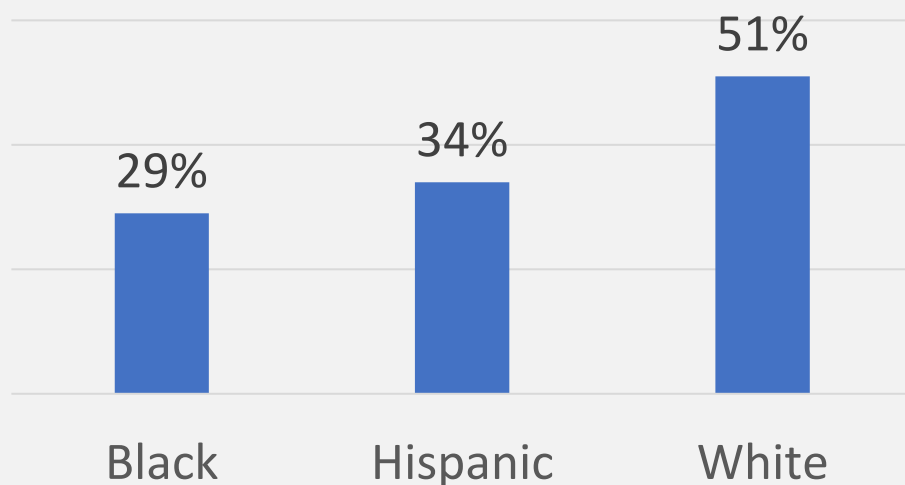
Individual well-being questions across demographics (3)

3. **Racial and ethnic differences** occur similar to findings of existing research.

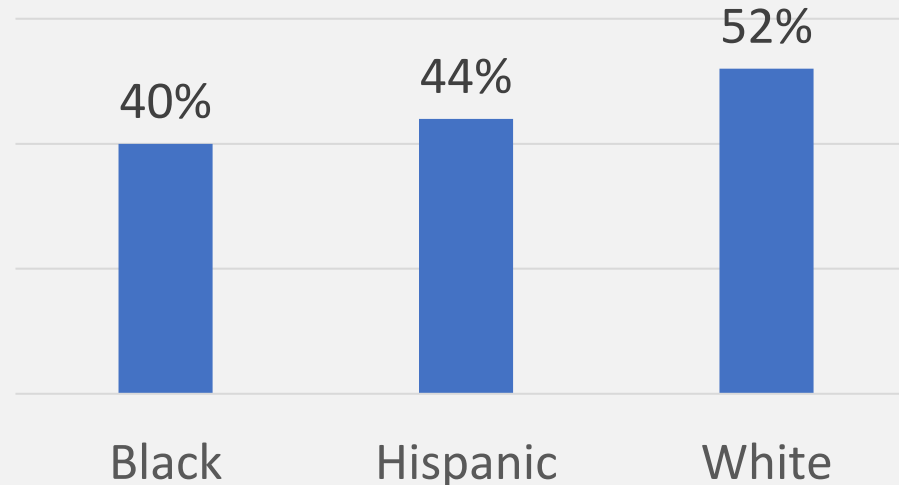
- Most striking difference for the managing-debt building block.
- Difference is smaller for subjective question.



Objective: Not constrained by debt

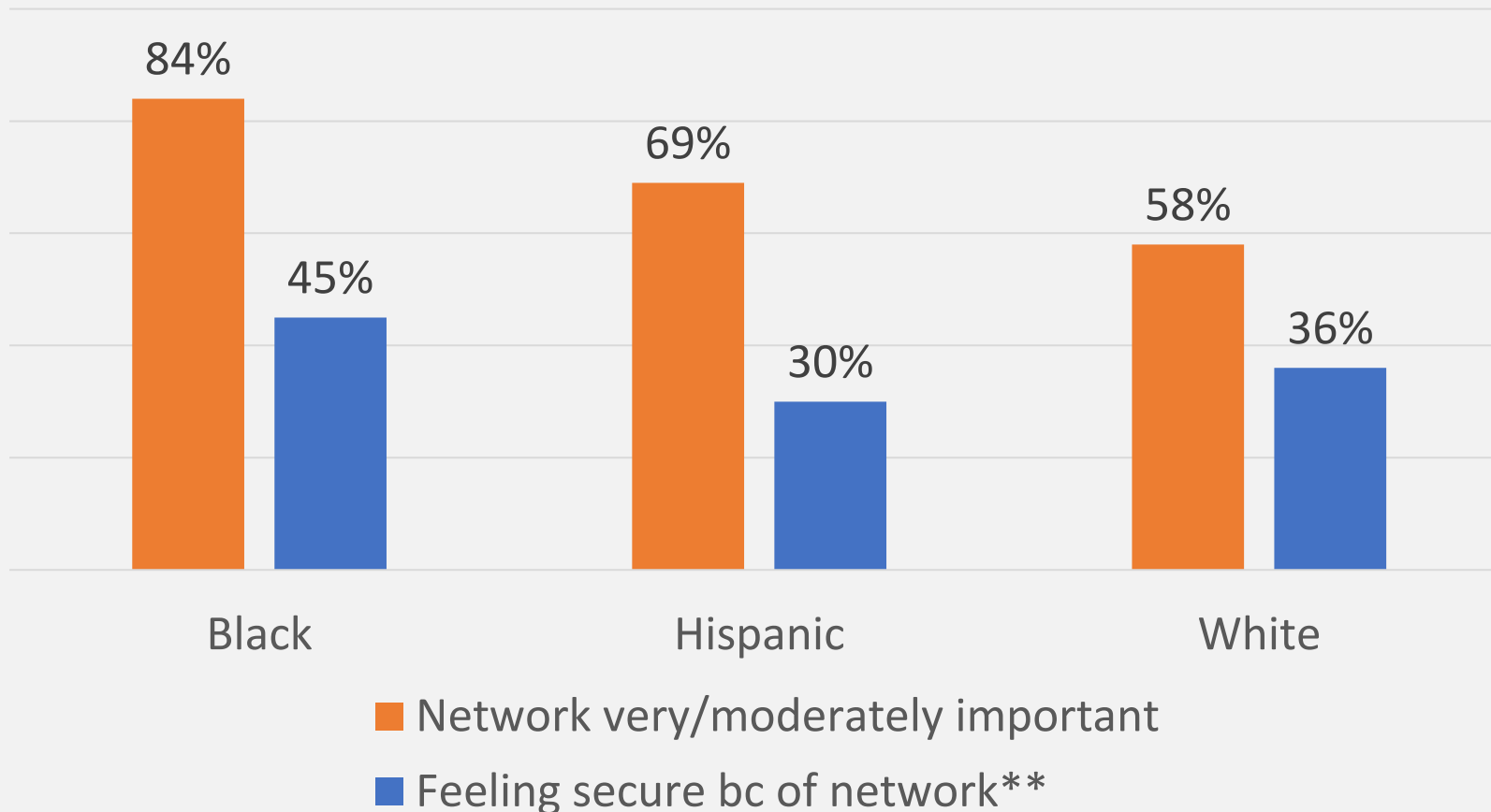


Subjective: Comfortable with amount of debt



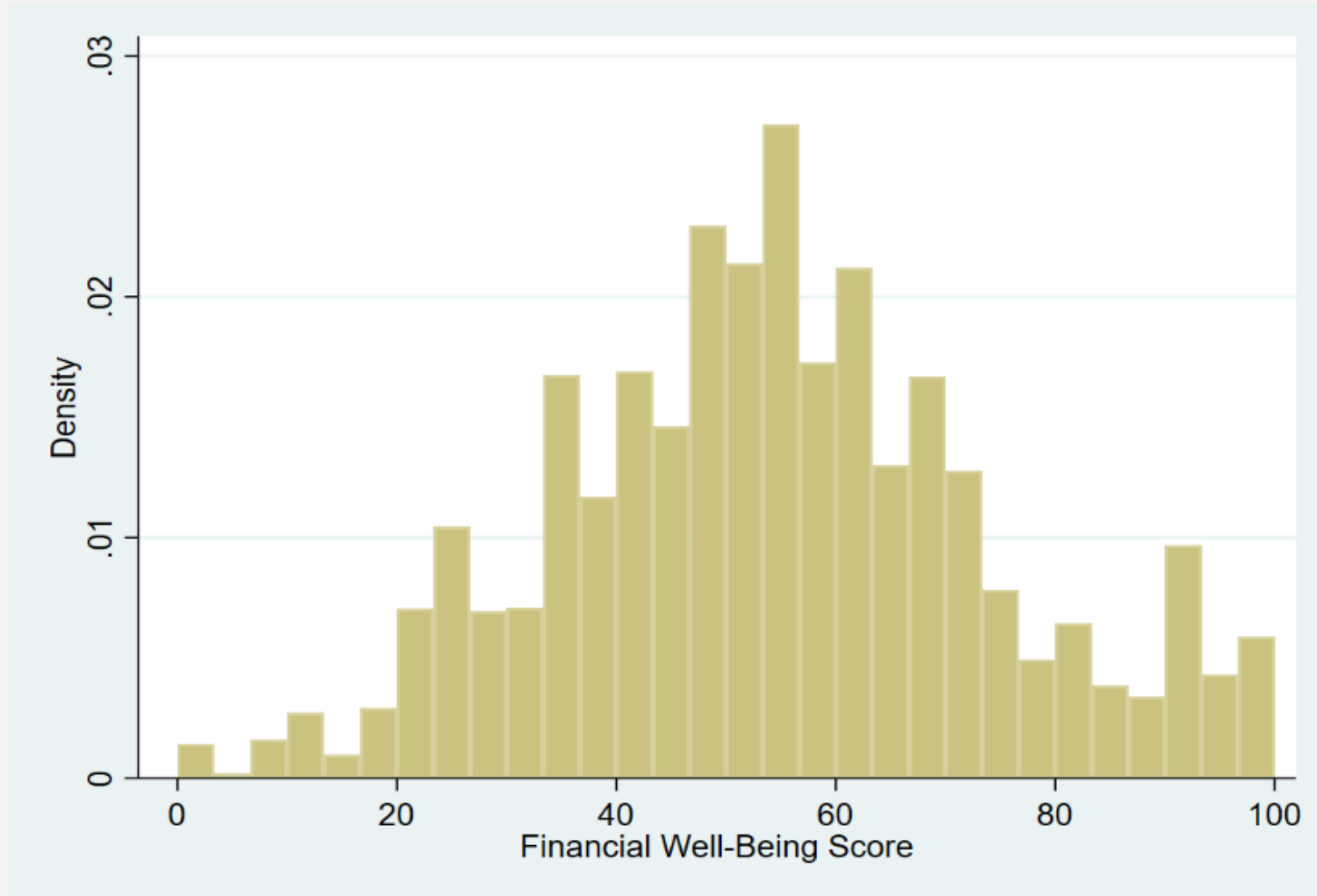
Individual well-being questions across demographics (4)

- More Black (35%) than White (27%) Americans are able to access an informal network in the event of financial distress.



In-depth interviews: cultural differences likely contribute to greater availability of and reliance on informal networks (strong family ties, multi-generational homes, and strong communities).

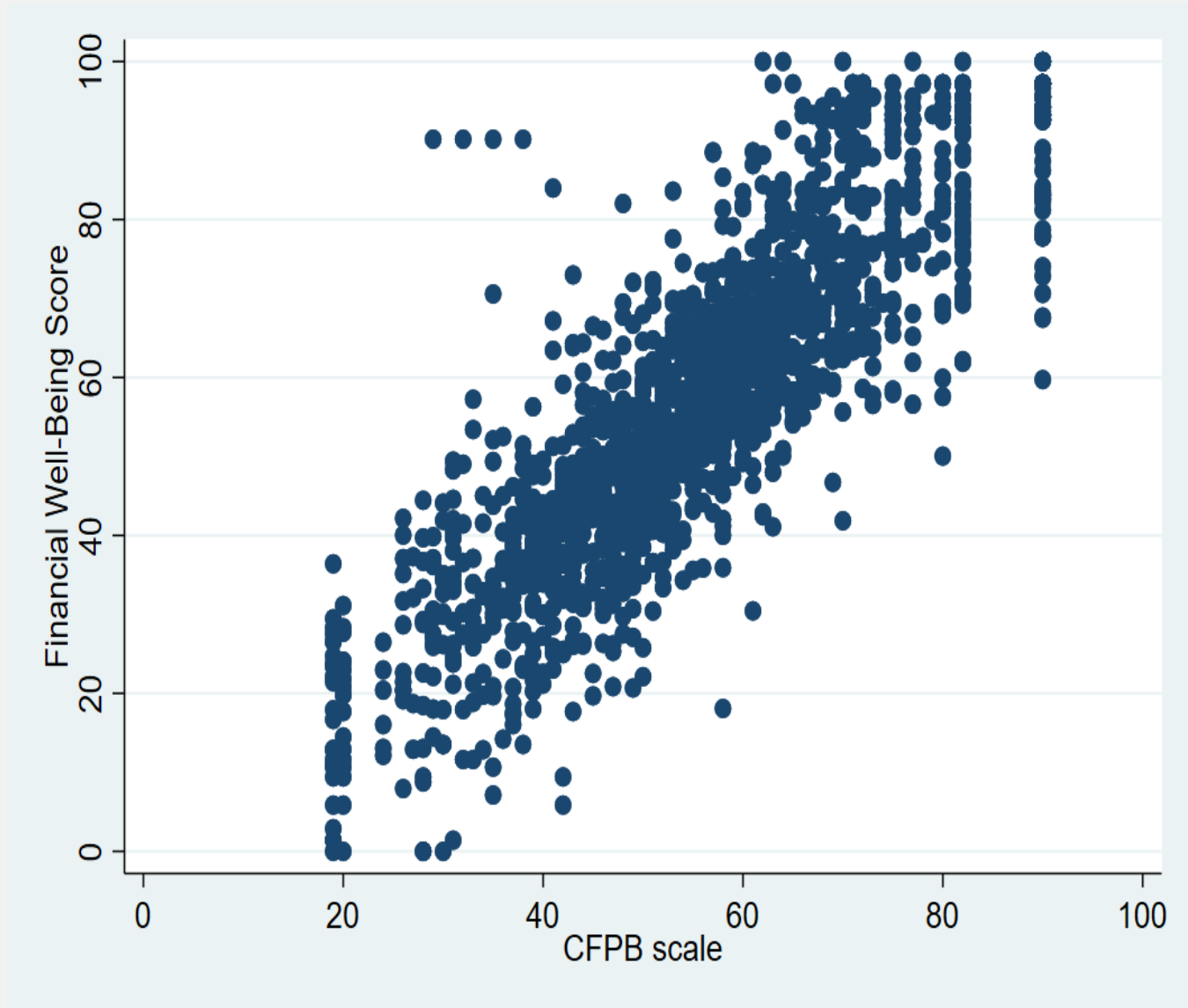
Financial well-being score distribution



Build 10-item financial well-being score using item response theory (IRT).

The average score in our sample is 54 points

Comparison to CFPB scale



Score compares well to the established CFPB scale. Correlation coefficient is 0.8054.

Our score better maps the full spectrum of financial well-being.

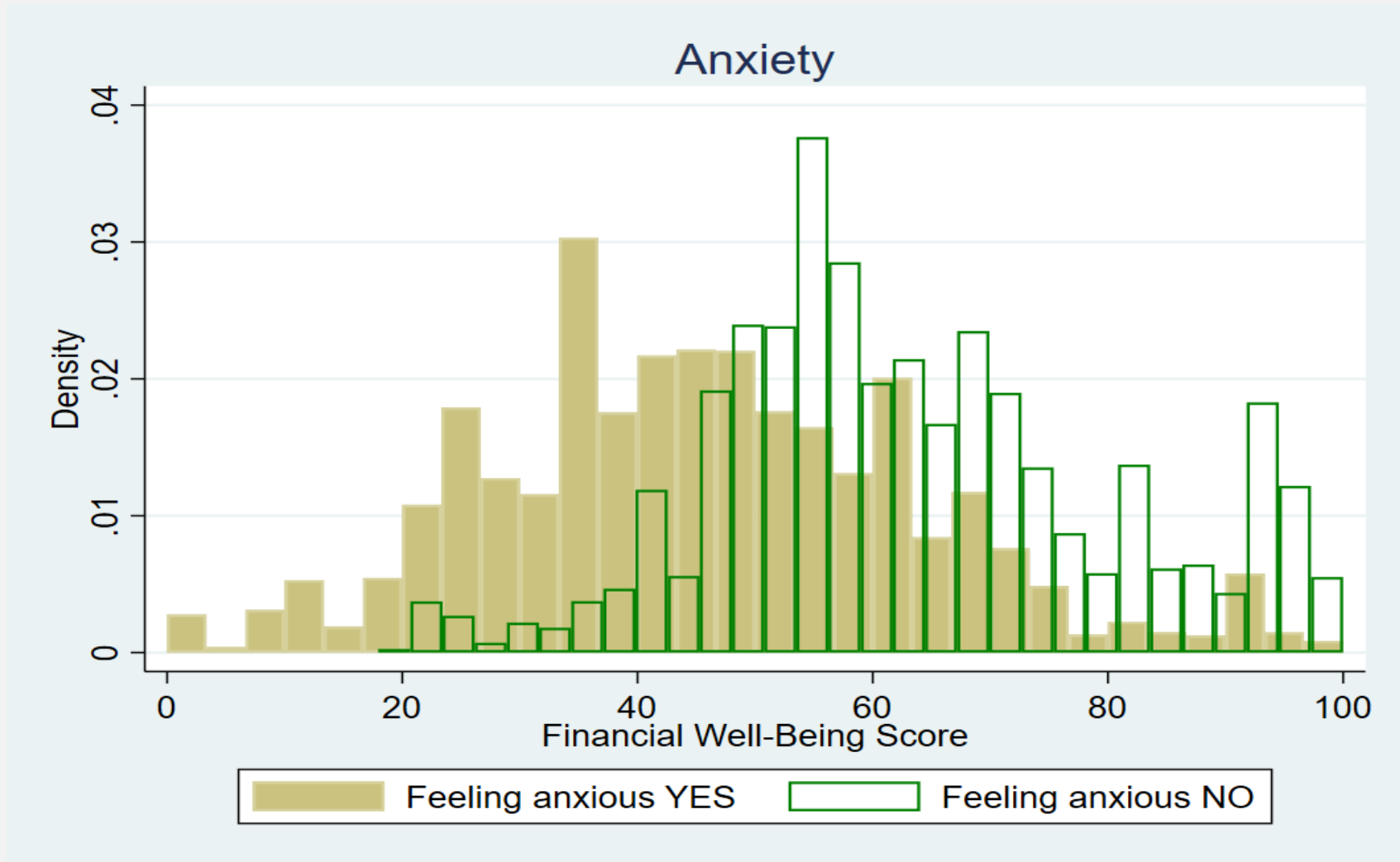
Relationship with money management

| | Total population | Financial Well-Being Score |
|----------------------------------------|------------------|----------------------------|
| <i>Financial Situation</i> | | |
| Satisfied with financial condition NO | 30% | 35 |
| Satisfied with financial condition YES | 29% | 74 |
| Retirement account NO | 50% | 46 |
| Retirement account YES | 50% | 62 |
| <i>Money management</i> | | |
| Expensive CC use YES** | 26% | 46 |
| Expensive CC use NO** | 74% | 60 |
| AFS use YES | 9% | 50 |
| AFS use NO | 91% | 55 |

Relationship to financial distress indicators

| | Total population | Financial Well-Being Score |
|-------------------------------------------|------------------|----------------------------|
| Financially fragile YES | 41% | 39 |
| Financially fragile NO | 59% | 65 |
| Feeling anxious YES | 51% | 46 |
| Feeling anxious NO | 23% | 72 |
| Spend more than 5 hours per week thinking | 23% | 44 |
| Spend less than 5 hours per week thinking | 77% | 57 |

Relationship to financial distress indicators



Relationship with financial literacy and education

| | Total population | Financial Well-Being Score |
|----------------------------------------------|-----------------------------|-------------------------------------------|
| Not financially literate (Big 3 not correct) | 70% | 51 |
| Financially literate (Big 3 correct) | 30% | 62 |
| Did not participate in financial education | 24% | 52 |
| Participated in financial education | 76% | 59 |

Relationship with financial literacy and education

Financial Well-Being Score

Financial literacy

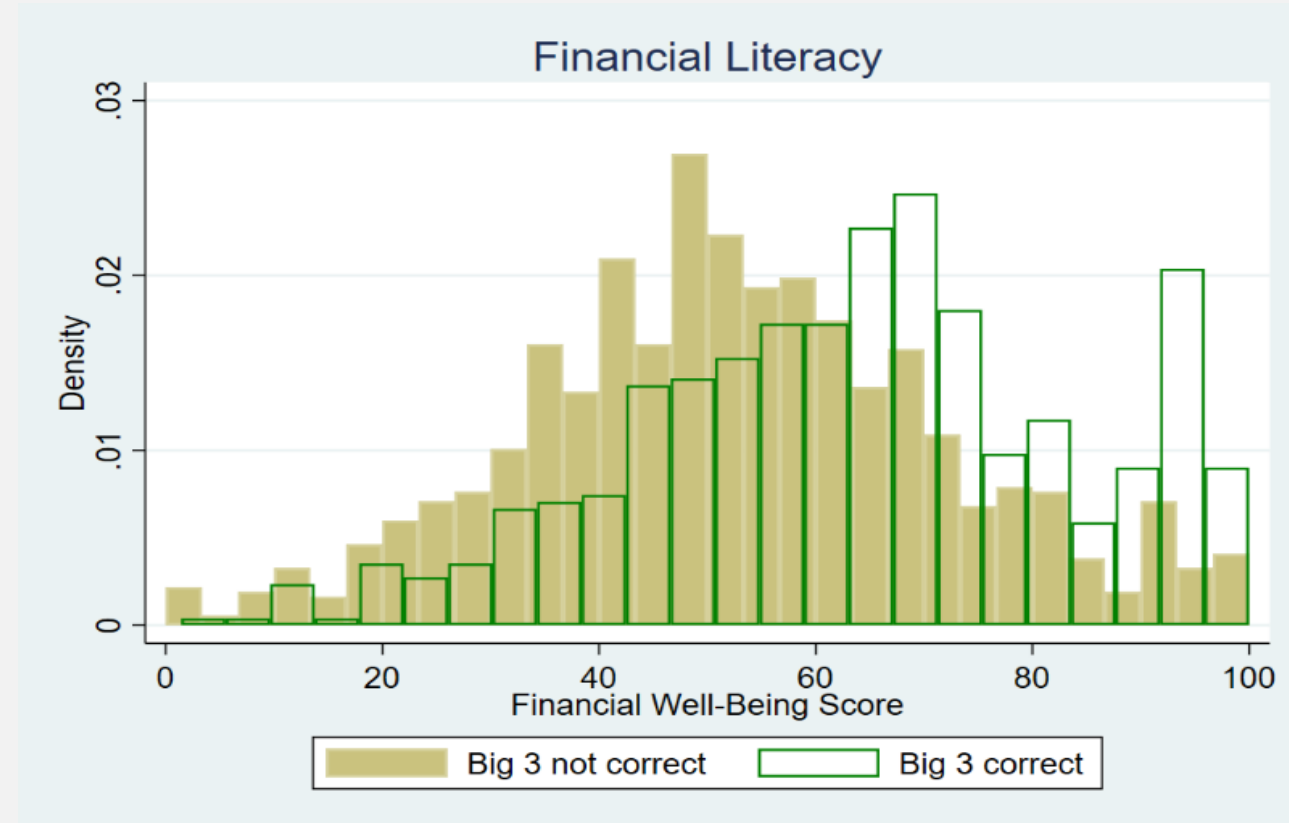
Big 3 correct 5.812***
(1.339)

Constant 53.674***
(2.504)

Controls YES

Observations 1,723

R-squared 0.334



Summary

- Financial well-being is particularly low among the following respondents
 - Younger
 - Single
 - Lower income
 - Unemployed and not in labor force
 - Lower financial literacy
- Financial well-being proved to be highly correlated with financial literacy and financial education.
- New well-being score can provide researchers, policymakers, and financial service providers with an improved way to comprehensively assess and promote financial well-being.
- Can be used to refine workplace financial wellness programs and identify potential areas for improvements in program offerings.

Thank you!

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