Interacting Influences on Financial Well-Being

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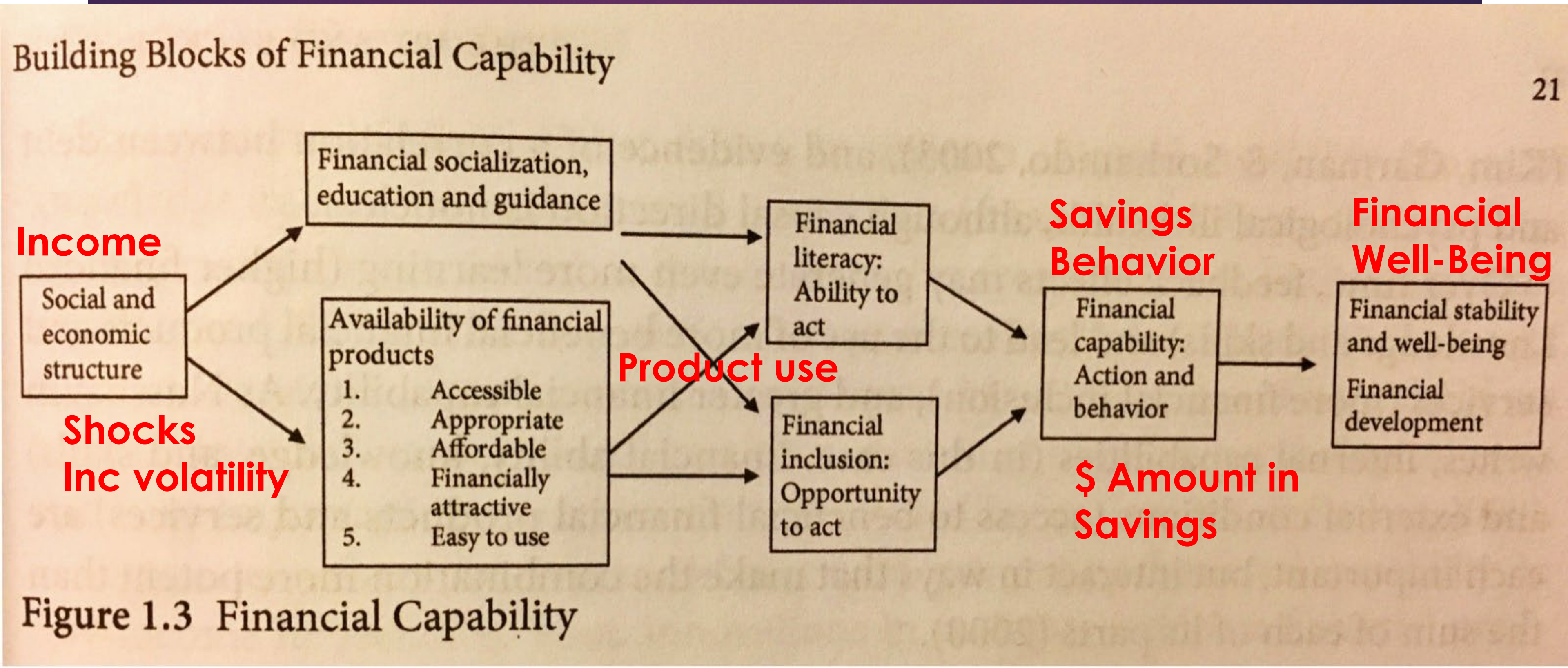
Background

- **Financial well-being (FWB)**: *Subjective perception of a person's dual sense of security and freedom of choice, both in the present and in the future* (CFPB, 2017).
  - Impacted by:
    - Financial shocks
      - Costly events – job loss, large medical bill, etc.
    - Income and savings
      - Income & dynamics, assets
    - Financial product use
      - Bank account, life insurance, payday loans, etc.
    - Financial management behaviors
      - Active saving, budgeting, bill paying behaviors

Financial Capability Theoretical Framework



Sherraden, M. (2013). Building blocks of financial capability. In J. Birkenmaier, M. Sherraden, & J. Curley (Eds.), *Financial capability and asset development: research, education, policy, and practice* (pp. 3-43). New York, NY: Oxford University Press.

Purpose of the study

Question: How do financial shocks and income volatility, financial product use, and savings behaviors intersect to influence FWB?

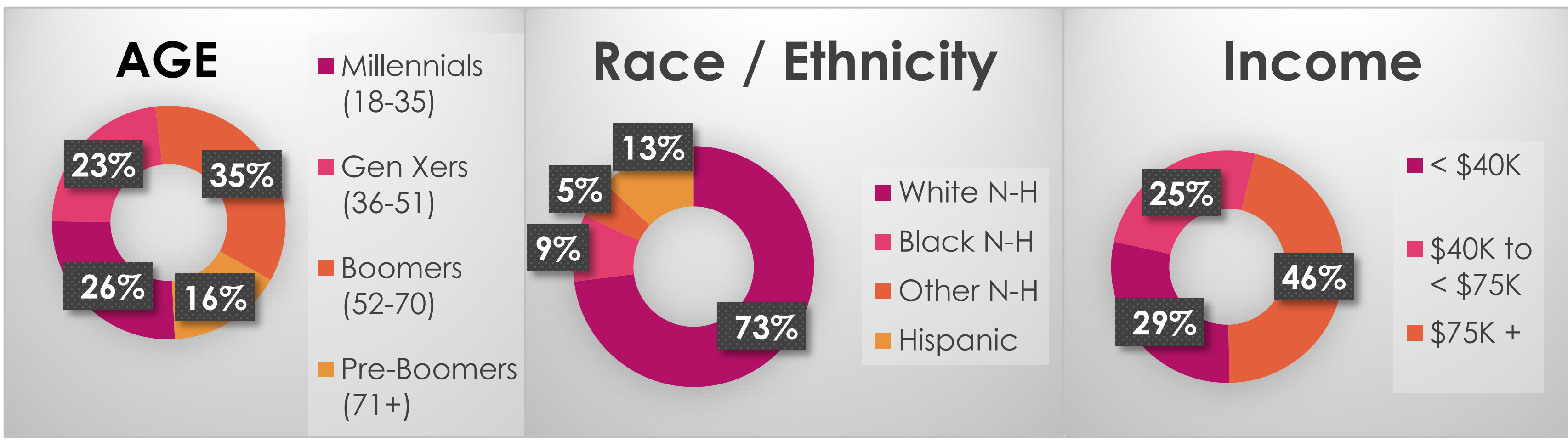
H_1: Financial shocks and income volatility have the most significant interactions, over products and behaviors, on the outcome of FWB.

Or: how much does personal behavior really account for FWB when confronted with forces outside one's control?

Abt Associates (2019) Call for proposals: Financial well-being symposium 2019. Retrieved from: http://financialwellbeing.abtmeetings.com/call-for-proposals.html

Design & Sample

- N= 5,176, age 18+, from National Financial Well-Being Survey (CFPB, 2016) online panel. Exploratory, secondary data analysis.
- Nationally representative, quota sampling w/ target demographics matching 2010 US census



Consumer Financial Protection Bureau (2017) *Financial well-being survey data*. Retrieved from: https://www.consumerfinance.gov/data-research/financial-well-being-survey-data/

Measures & Variables

Independent Variables

Financial Shocks	11Q, Y/N scale (indexed)
Income Volatility	1Q, 3pt scale
Financial Products	8Q, Y/N scale (indexed)
Alternative Products	5Q, Y/N scale (indexed)
Savings Habit	1Q, 6pt scale
Amount in Savings	1Q, 7pt scale

Dependent Variable

Financial Well-Being	10Q, 5pt scale (CFPB – FinW-B Scale)

Controls

- Race / Ethnicity
- Generational Age
- Gender
- Household Income

Data Analysis

- **Summary Statistics & Correlations** – among all 6 IVs, 1 DV, and 4 control variables
- **Hierarchical Regression** – to estimate the effects of financial shocks, consumer products, and behaviors on overall financial well-being using four sequential models
  - Step 1 – Controlled demographic variables: race/ethnicity, age, gender, household income
  - Step 2 – Socioeconomic structures outside one's immediate control: shocks, income volatility
  - Step 3 – Financial products: financial products held and alternative products used
  - Step 4 – Behaviors / ability to act: savings habit, amount saved

Summary Statistics & Unadjusted Regression Correlations on Financial Well-Being

Variable	M	SD	Corr. Coeff.
FWB Score	55.75	14.47	
White Non-Hispanic	0.73	0.44	.16**
Black Non-Hispanic	0.09	0.29	-.09**
Other Non-Hispanic	0.05	0.21	-.03*
Hispanic	0.13	0.33	-.12**
Millennial	0.26	0.44	-.20**
Gen X	0.23	0.42	-.12**
Boomer	0.35	0.48	.11**
Pre-Boomer	0.16	0.37	.23**
Gender (1=M; 0=F)	0.54	0.5	.07**
HH Income	5.64	2.64	.43**
Financial Shocks	0.81	1.02	-.20**
Income Volatility	1.33	0.59	-.19**
Financial Products	3.63	1.77	.43**
Alt Financial Products	0.24	0.53	-.26**
Savings Habit	4.35	1.49	.51**
Amt Saved (seven bins)	4.49	1.8	.65**

Note. N = 5,176. SD = standard deviation.
*p < 0.05. **p < 0.01.

Hierarchical Regression Coefficients for Predicting Financial Well-Being (Final Step)

Variable	B	(SE)	95% CI for B		β	t
			LL	UL		
(Constant)	29.68	(0.73)	28.26	31.10		40.89**
Black Non-Hispanic	2.11	(0.52)	1.10	3.13	0.04	4.10**
Other Non-Hispanic	-2.03	(0.67)	-3.35	-0.72	-0.03	-3.03**
Hispanic	1.01	(0.45)	0.13	1.90	0.02	2.25*
Millennial	-2.13	(0.38)	-2.88	-1.38	-0.07	-5.57**
Gen X	-2.87	(0.39)	-3.63	-2.11	-0.08	-7.38**
Pre-Boomer	3.52	(0.43)	2.67	4.37	0.09	8.13**
Gender (1=M; 0=F)	0.15	(0.29)	-0.41	0.71	0.01	0.52
HH Income	0.68	(0.07)	0.55	0.82	0.12	9.84**
Financial Shocks	-1.24	(0.14)	-1.53	-0.96	-0.09	-8.66**
Income Volatility	-0.95	(0.25)	-1.43	-0.47	-0.04	-3.85**
Financial Products	0.50	(0.10)	0.29	0.70	0.06	4.79**
Alt Fin. Products	-0.92	(0.29)	-1.49	-0.34	-0.03	-3.13**
Savings Habit	2.28	(0.11)	2.06	2.50	0.24	20.27**
Amount Saved	2.97	(0.12)	2.74	3.19	0.37	25.77**

*$p < .05$. **$p < .01$.

Hierarchical Regression Final Results

	Adj. R^2	ΔR^2	F	ΔF
Step 1 **(Demographics)**	0.28		245.12***	
Step 2 **(Shocks & Volatility)**	0.30	0.03	223.74***	100.45***
Step 3 **(Fin. & Alt. Products)**	0.34	0.03	218.07***	132.67***
Step 4 **(Savings Amt & Hbt)**	0.51	0.17	383.06***	911.54***

*** $p < .001$

Results, con't

- The hypothesis – that financial shocks and income volatility have the most significant interactions, over products and behaviors, on the outcome of financial well-being, <u>was not fully supported</u>.
- But rather, personal behaviors – as exemplified by savings habits and amounts – accounted for the most variance, while shocks and volatility, and products were relatively equal contributors to financial well-being.

Strengths & Limitations

- Model accounted for 51% of variance in FWB.
- Poor measure of volatility, size / type of shocks not considered.
- Financial Products (+) and Alternative Products (-) may have cancelling effect.
- Individualist conception of money management.
- Other behaviors were not included, which may have a significant impact on FWB. (i.e. money management behaviors, financial self-efficacy)
- High sampling of $100K income respondents (-), but weighted to bring mean income to $55K (+)

Implications

- Support for shifting financial education's emphasis from technical information to behavioral.
  - "Running start" saving incentives for younger cohorts.
  - Role of income and savings to mitigate impact of shocks & volatility on FWB.
- Q: Do the correlations and findings stand:
  - When looking only at individuals with low-income levels?
  - When looking at particular racial, ethnic, or cultural groups (operating with more collective orientations)?