



# The Relationship Between Financial Understanding and Financial Well-Being

Maeve Olson, Applied Data Analysis, Wesleyan University

## Introduction

- Financial well-being describes an individuals current financial situation and implications over their social status and overall happiness.
- Research shows there is a relationship between debt literacy and financial experiences (Lusardi, 2015).
- There is a common belief that more financial education leads to better money management (Farinella, 2017).
- There is a recent trend towards including financial literacy in high school curriculum, however it remains unclear if it has a positive benefit on students financial future. (Mandell, 2009).
- Financial education decays overtime (Fernandes, 2014).

## Research Questions

- Is higher overall financial knowledge associated with better financial well-being?
- Does the the amount of proactive financial actions impact overall financial well-being?
- Is the relationship between financial knowledge / financial actions and financial well-being impacted by education and ethnicity?

## Methods

### Sample

- Respondents (n=6,394) were drawn from the Consumer Financial Protection Bureau's National Financial Well-Being Survey, a nationally representative sample of English and Spanish speaking adults in the U.S.

### Measures

- Overall Financial Knowledge was assessed using the sum of participants responses to two questions - struggling to understand financial information and individual assessment over financial knowledge. Each response was coded on a scale then summed. Scores ranged from 0 (lowest knowledge) to 3 (highest knowledge).
- Proactive Financial Actions was assessed using the sum of participants responses to questions about their familiarity with financial services, if they were taught about the importance of savings and if any research is done before making financial decisions. Each response was coded on a scale then summed. Scores ranged from 0 (no proactive financial actions taken) to 3 (most proactive financial actions taken).
- Financial Well-Being was assessed based on the participants score on the Item Response Theory.
- Education was categorized on a scale from less than high school to graduate / professional degree.
- Ethnicity was self-reported.

## Results

### Univariate

- Financial Well-Being score: mean: 44.01, median: 44.00, range: 78.00
- 87% of respondents struggle to understand financial information which reflects low overall financial knowledge
- 63.34% of respondents have taken the most proactive actions in terms of individual finances.

### Bivariate

- ANOVA analysis (along with post hoc testing) revealed a significant and positive association between overall knowledge and financial well-being,  $F(1, 6328) = 284.4$ ,  $p < .0001$ . (see figure 1).
- ANOVA analysis (along with post hoc testing) revealed a significant and positive association between financial actions and financial well-being,  $F(1, 6323) = 186.6$ ,  $p < .0001$ . (see figure 1).

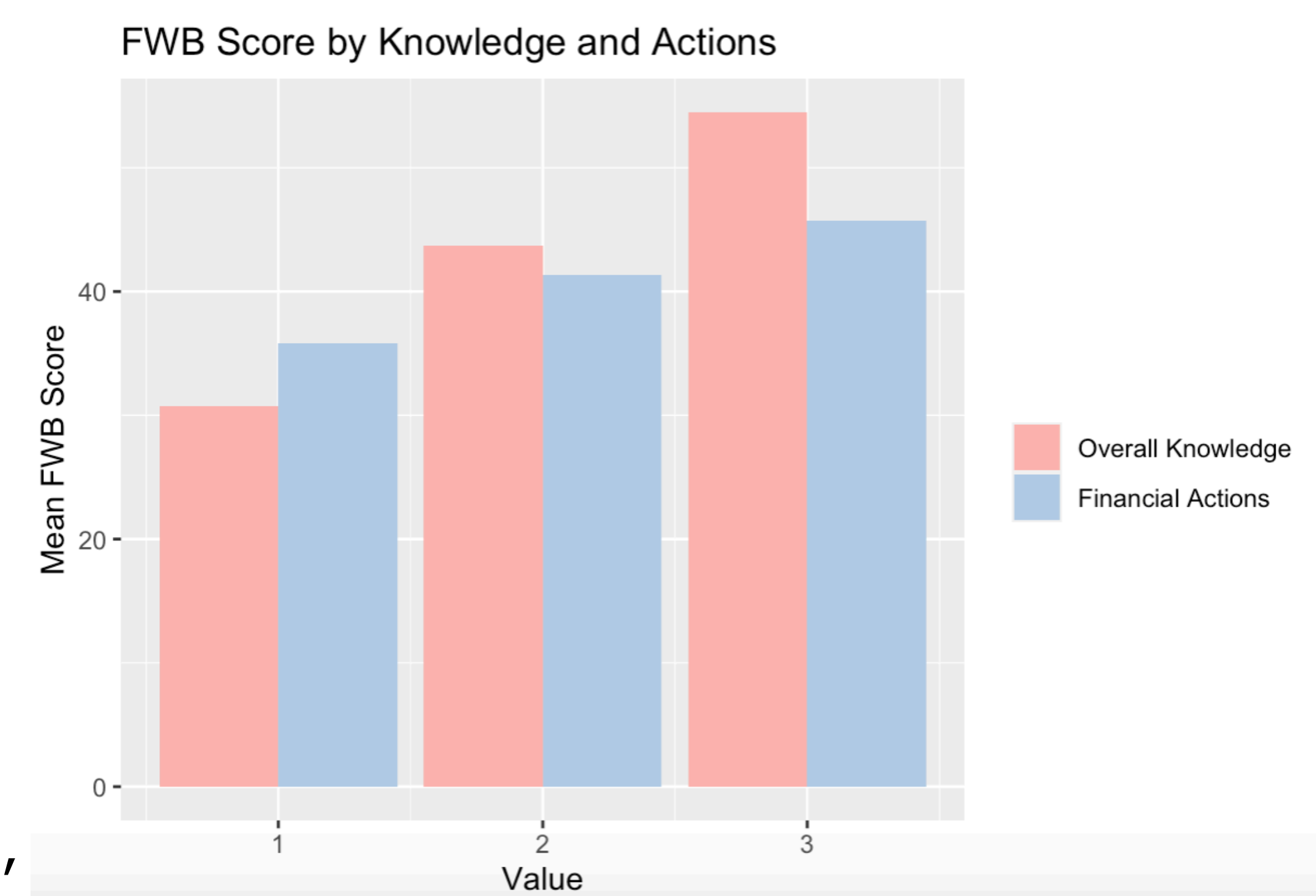


Figure 1. Mean Financial Well-Being Score by Overall Financial Knowledge and Financial Actions

### Multivariate

- Overall financial knowledge (Beta=10.5, CI 10.02 - 10.07,  $p < .0001$ ) was significantly and positively associated with financial well-being score after controlling for ethnicity (see figure 2) and education (see figure 3), but it was not significantly associated with gender.
- Financial Actions (Beta=3.26, CI 2.93 - 3.58,  $p < .0001$ ) was significantly and positively associated with financial well-being score after controlling for ethnicity (see figure 4) and education (see figure 5), but it was not significantly associated with gender.

Figure 2. Overall Financial Knowledge by Ethnicity

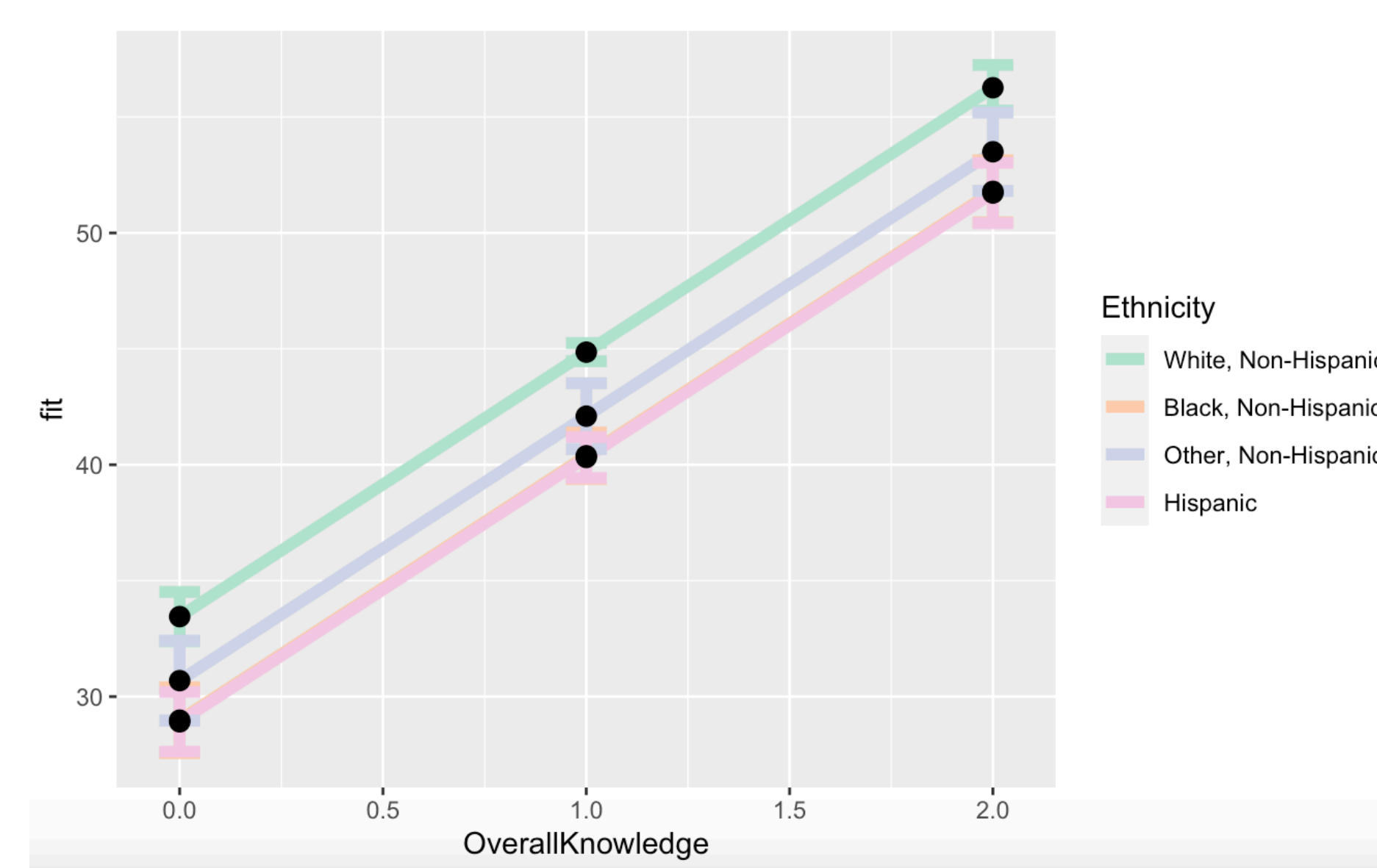


Figure 3. Overall Knowledge by Education

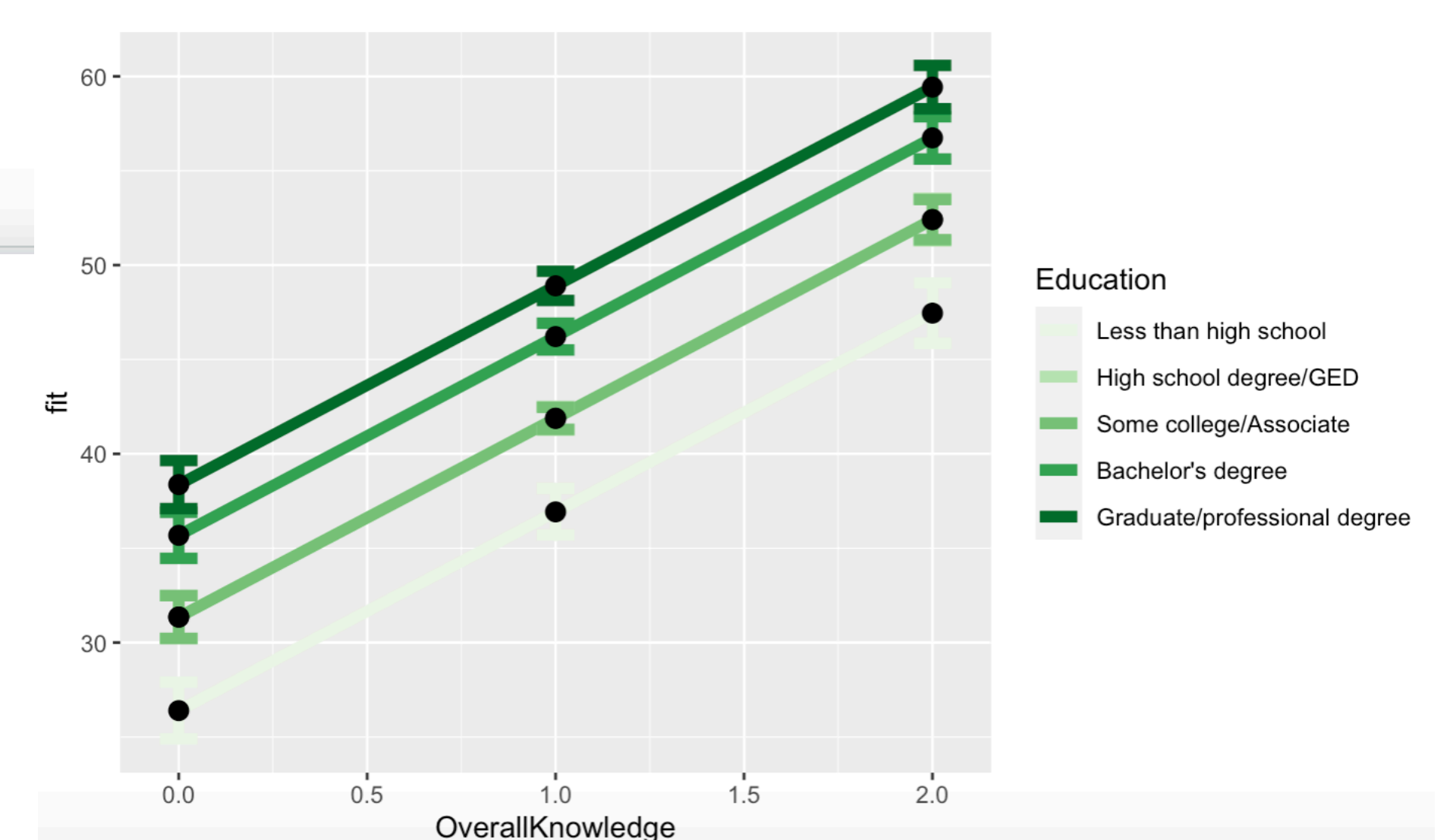


Figure 4. Financial Actions by Ethnicity

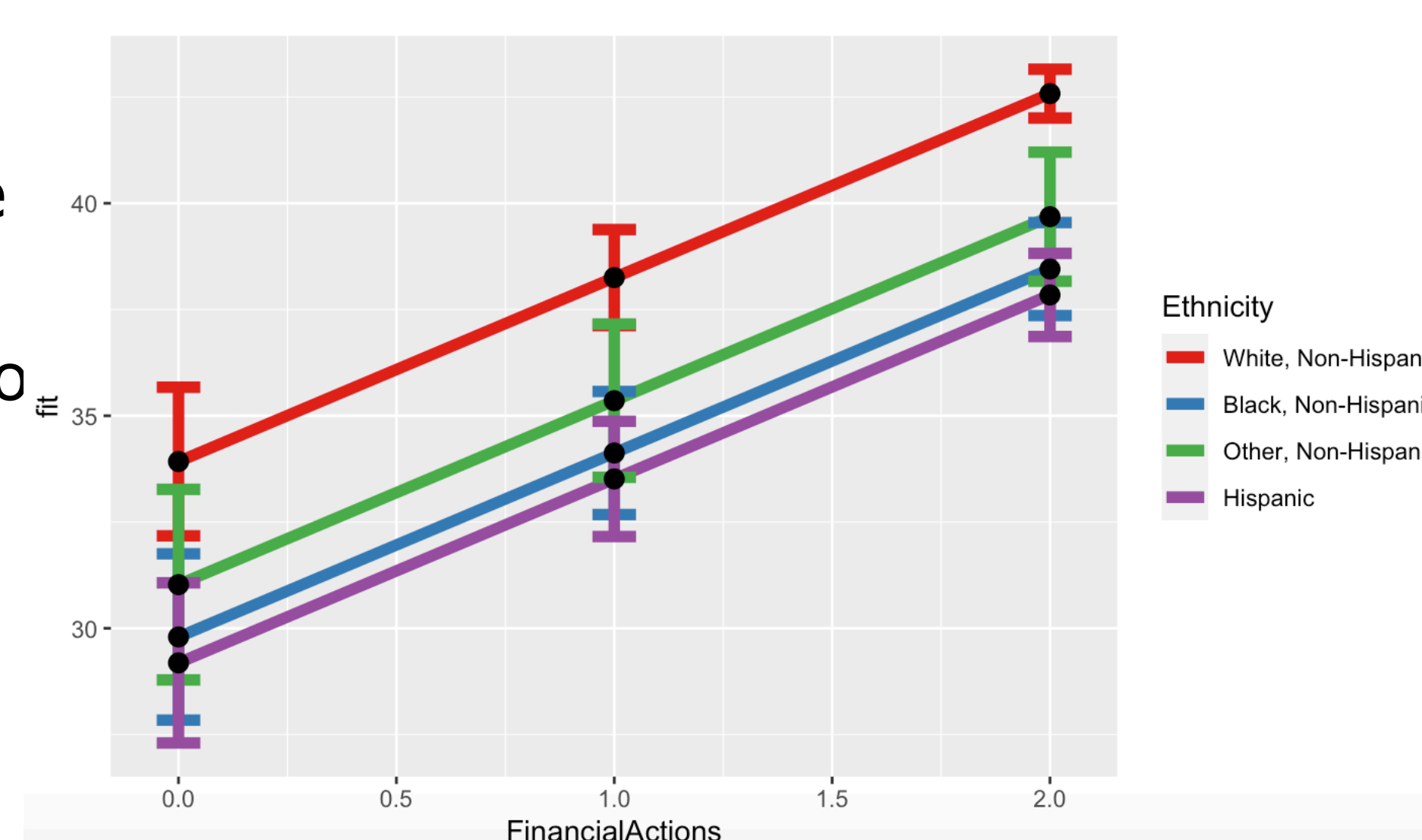
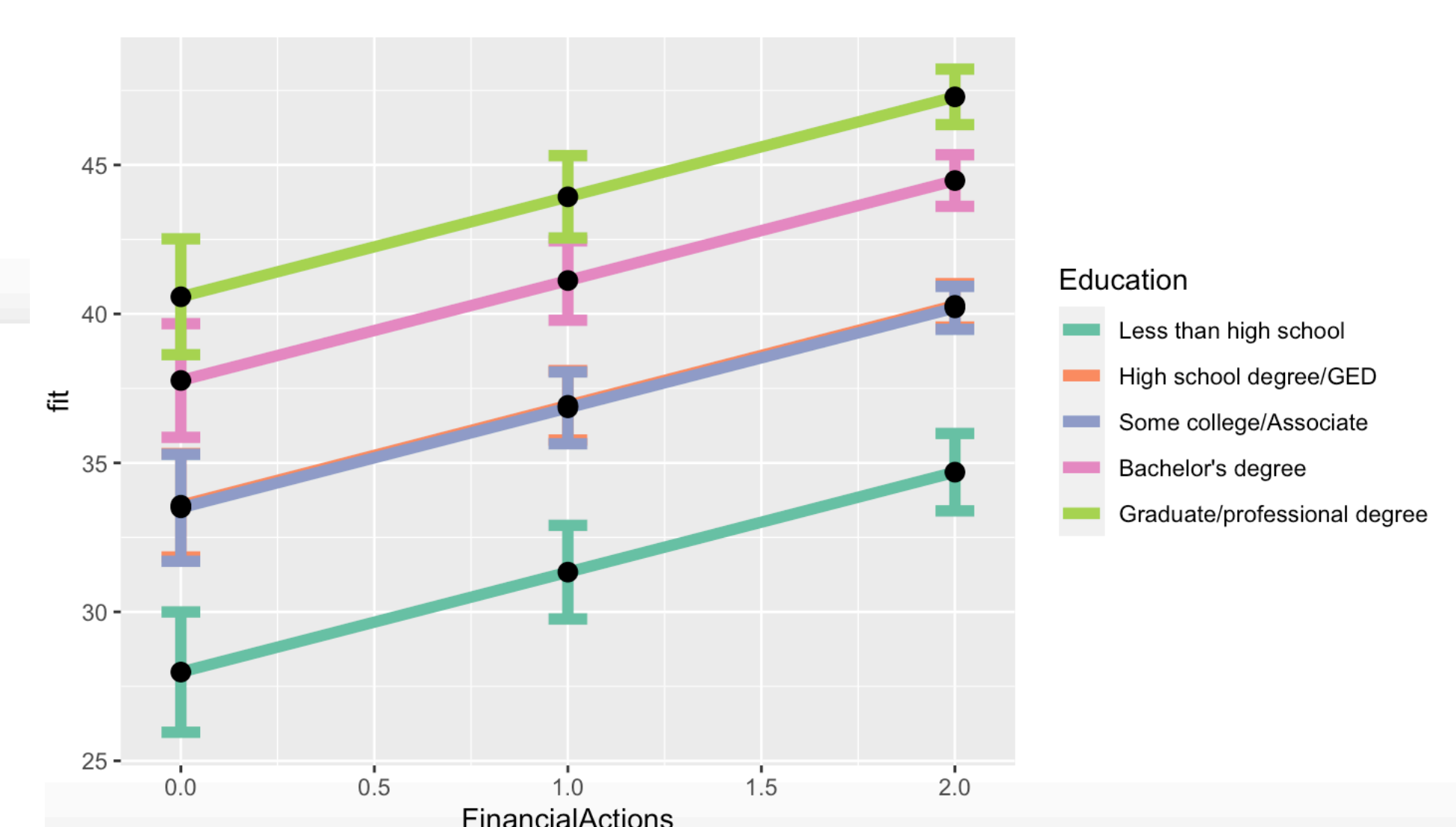


Figure 5. Financial Actions by Education



## Discussion

- More proactive financial actions taken and higher financial knowledge is reflective in higher financial well-being scores.
- Higher levels of education were associated with higher levels of overall knowledge and more proactive financial actions taken.
- When controlling for ethnicity, the relationship was significant for overall knowledge and financial actions.
- These results help support the argument for financial literacy in high school curriculum.
- This research only assesses five questions out of the many available to assess overall financial knowledge and financial actions.