TITLE OF POSTER: Psychosocial Well-Being and Financial Capability

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KEY WORDS: financial capability, psychosocial wellbeing

ABSTRACT: (begins on next page)

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Background

A growing body of research has been aimed at understanding and improving financial capability, defined by Johnson and Sherraden (2007) as the *ability to act* (knowledge, skills, confidence, and motivation) combined with the *opportunity to act* (access to beneficial financial services and products). While it is known that financial capability is associated with socio-economic status and other demographics (FINRA Investor Education Foundation, 2013), very little is known about the connection between financial capability and psychosocial well-being.

Purpose & Hypotheses

This poster reports findings from a research project, funded by the FINRA Investor Education Foundation, to explore the relationship financial capability and psychosocial well-being. In particular, we examine the relationship between two measures of financial capability and subjective well-being, which is a component of psychosocial well-being. We hypothesize that lower levels of subjective well-being are associated with diminished financial capability.

Methodology

Data Sources & sample characteristics: We use data obtained in 2012 by administering the National Financial Capability Survey, which was designed by FINRA to measure financial capability and status, to RAND's American Life Panel (ALP), a nationally representative sample of adults 18+ who have agreed to participate in occasional online surveys. We merged this data with earlier waves of the ALP that contains information about the psychosocial well-being of the respondents. Our sample consists of 1,758 individuals who were administered both waves.
Variables & Analysis: To measure subjective well-being, we use Diener's Satisfaction with Life Scale, a five-item scale which yields a score of 5 to 35. Following earlier work, we distinguish between those who were dissatisfied or extremely satisfied (scores of 5 through 14), those who were satisfied or extremely satisfied (scores of 26 through 35), and those who were neither (scores of 15 through 25) (Diener, Emmons, Larsen, & Griffin, 1985). We examine two measures of financial capability: (1) whether respondents agreed that they were good at dealing with day-to-day financial matters; and (2) whether they had ever tied to figure how much they needed for retirement (asked of those not yet retired). We use chi-square analysis to compare the association between our measure of subjective well-being and each of our two measures of financial capability.

Results and Discussion

Subjective well-being was negatively associated with both measures of financial capability. Overall, 75% of sample respondents agreed that they were good at dealing with day-to-day financial matters. However, 60% of those who were dissatisfied with life agreed with this statement, 70% of who were neither dissatisfied or satisfied agreed, and 83% of those who were satisfied with life agreed that they were good at dealing with day-to-day financial matters ($p<.001$). Life satisfaction was also associated with having figured out how much was needed for retirement. Overall, 44% of sample respondents had made this calculation: 33% of those who were dissatisfied, 39% of those who were neither satisfied or dissatisfied, and 52% of those who were satisfied with life ($p<.001$). Our results suggest that interventions aimed at improving financial capability need to take into account the psychosocial well-being of individuals and families that are the target of these interventions.

References

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