

Title: Psychosocial Well-Being and Financial Capability

Intended Audience: students, faculty, and researchers interested in financial social work and the determinants of financial capability

Learning Objectives:

1. state the role of financial social work and its importance in preparing students for generalist social work practice
2. differentiate between two components of financial capability: *ability to act* and *opportunity to act*
3. assess the impact of psychosocial well-being on financial capability

Proposal (500-word):

Background: Financial social work is a growing field within the profession, amidst calls that social workers refocus their attention on the financial lives of vulnerable families and provide assistance in such tasks as managing household finances, investing in education, and preparing for retirement. 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).

Financial capability is associated with socio-economic status and other demographics (FINRA Investor Education Foundation, 2013), but very little is known about the connection between financial capability and psychosocial well-being. Most research on the relationship has utilized experimental data or data from other countries; hence, findings are not necessarily generalizable to the U.S. population (Güven, 2012; Ifcher and Zarghamee, 2011; Taylor, 2009). Moreover, most studies focus on the knowledge and skills, not the confidence and motivation, needed to act. In this study, we explore the relationship between financial capability and psychosocial well-being, and see how psychosocial well-being differentially impacts the *ability to act*.

Methods: We use data obtained in 2012 by administering the National Financial Capability Survey, designed to measure financial capability and status, to RAND's American Life Panel (ALP), a nationally representative sample of adults 18+. Our sample consists of 1,758 individuals who were administered this survey and an earlier panel study that measured psychosocial well-being.

Our measures of financial capability encompass the domains of financial knowledge, financial behavior, and financial well-being, with multiple measures within each domain (for example, financial knowledge is measured using five financial literacy questions and a separate self-assessment of one's overall financial knowledge). We also constructed an overall index of financial capability.

Our measures of psychosocial well-being include an assessment of subjective well-being, an assessment of life satisfaction, and a measure of stressful life events.

Results: All three measures of psychosocial well-being are associated with the overall index of financial capability. Those who report lower levels of subjective well-being, less satisfaction with life, and more stressful life events, score lower on the overall index of financial capability. The same relationship holds true with separate measures of financial behavior and financial well-being, but not with measures of financial knowledge. These findings persist after controlling for demographic and socioeconomic variables.

Conclusions and Implications: Taken together, 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. In particular, they suggest that lower levels of psychosocial well-being may not necessarily impair one's financial knowledge and skills but may prevent one from acting on those knowledge and skills. From a practice perspective, the results suggest that it is important to assure that vulnerable families have access to financial services, but equally important that their ability to act to improve their financial situation is enhanced. Social workers can play a crucial role in enhancing this ability.

References:

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