

Pathways to financial well-being: the role of financial capability

Financial Literacy Seminar | October 2018



About the Bureau

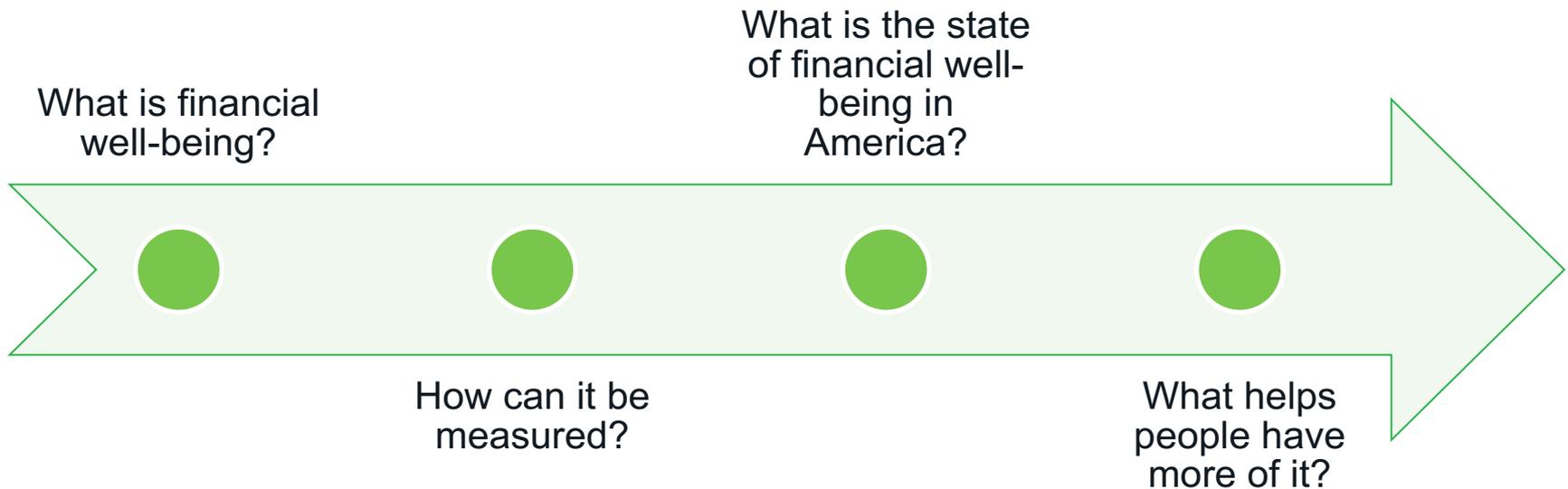
The Bureau of Consumer Financial Protection regulates the offering and provision of consumer financial products and services under the Federal consumer financial laws, and educates and empowers consumers to make better informed financial decisions.

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Financial well-being is the ultimate goal of financial education



What is financial well-being?

A state of being reflecting a person's ability to meet current and ongoing financial obligations, feel secure in their financial future, and make choices that allow enjoyment of life.

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

How can it be measured? The CFPB Financial Well-Being Scale

Questions	Response Options
<p>How well does this statement describe you or your situation?</p> <ol style="list-style-type: none">1. I could handle a major unexpected expense2. I am securing my financial future3. Because of my money situation, I feel like I will never have the things I want in life4. I can enjoy life because of the way I'm managing my money5. I am just getting by financially6. I am concerned that the money I have or will save won't last	<ul style="list-style-type: none">• Describes me completely• Describes me very well• Describes me somewhat• Describes me very little• Does not describe me at all
<p>How often does this statement apply to you?</p> <ol style="list-style-type: none">1. Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month2. I have money left over at the end of the month3. I am behind with my finances4. My finances control my life	<ul style="list-style-type: none">• Always• Often• Sometimes• Rarely• Never

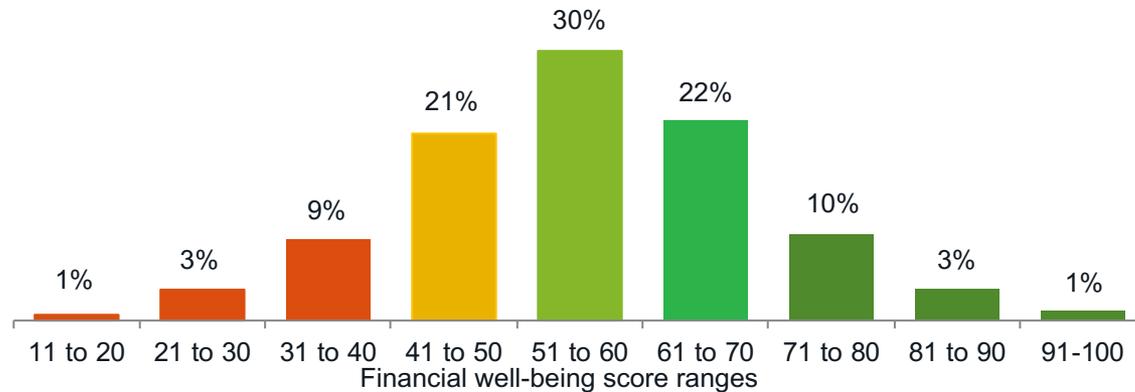
What is the state of financial well-being in
America?

National Financial Well-Being Survey

A nationally representative survey of almost 6,400 adults 18+, including questions on topics such as...

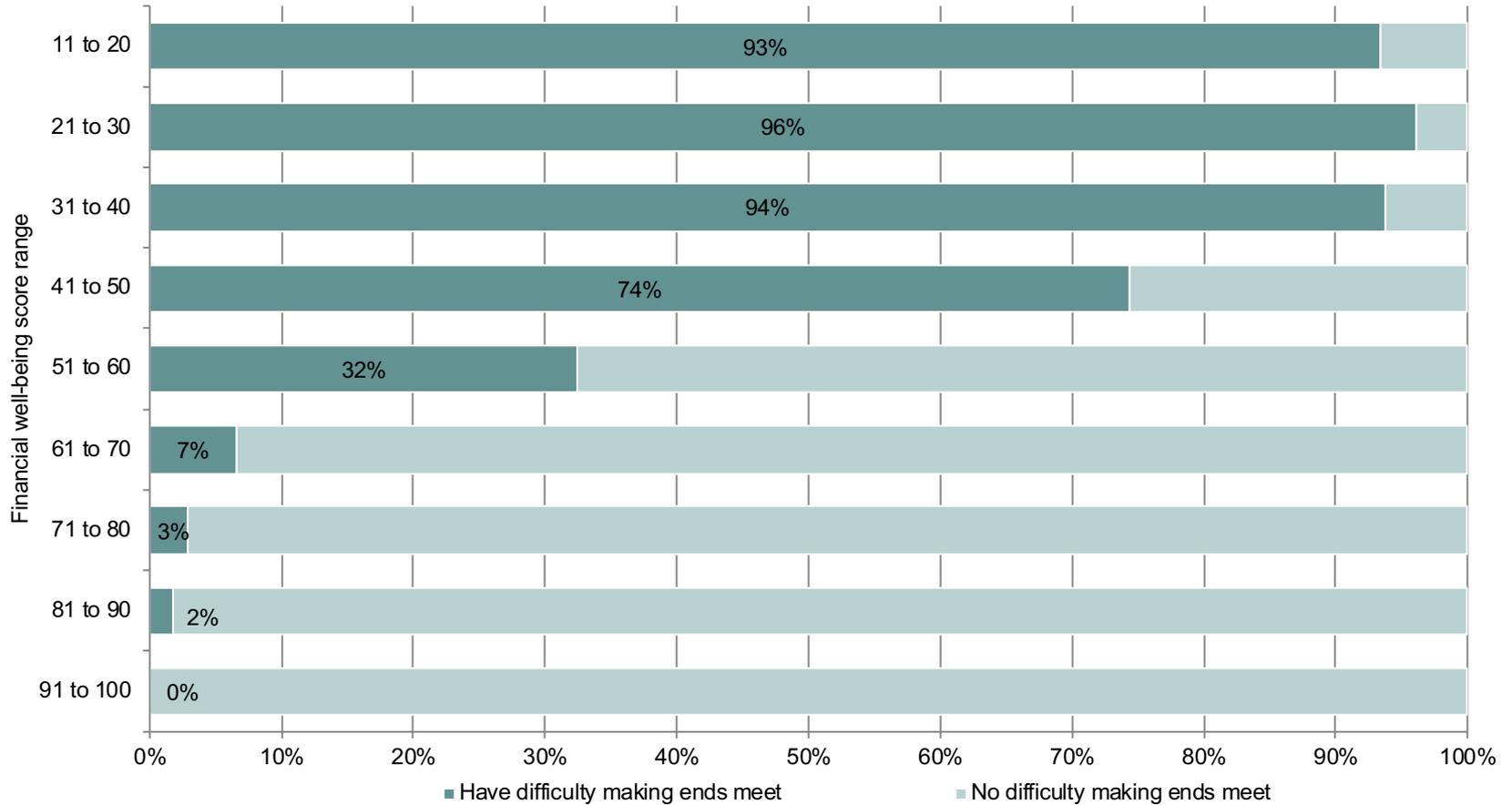
Category	Measures
Financial status and circumstances	CFPB Financial Well-being Scale and Score; ability to meet basic needs; experience of material hardship
Individual characteristics	Education; Age; Physical health; Race/ethnicity; and Sex
Household and family characteristics	Housing satisfaction; Housing status; Marital status; Financially supporting children; Census region
Income and employment characteristics	Employment status; Household income; Federal poverty status; Income volatility; Receiving Social Security retirement benefits; Military service (service member or dependent); Veteran status; Employer-provided benefits
Savings and safety nets	Liquid savings; Ability to absorb an unexpected expense; Have non-retirement investments; Have health insurance; Have friends/family safety net for emergency needs
Financial experiences	Turned down for credit; Contacted by debt collector; Have checking or savings account; Use non-bank, short-term credit; Use non-bank transaction product; Housing cost burden; Negative financial services experience; Experienced any negative financial shocks; Have student loan; Financial socialization; Responsibility for own finances
Financial behaviors, skills, and attitudes	Confidence in ability to achieve a financial goal; Have a habit of saving; Effective day-to-day money management behaviors; Planning horizon of 5+ years; Propensity to plan for finances; Financial knowledge; Financial skills

Financial well-being varies widely

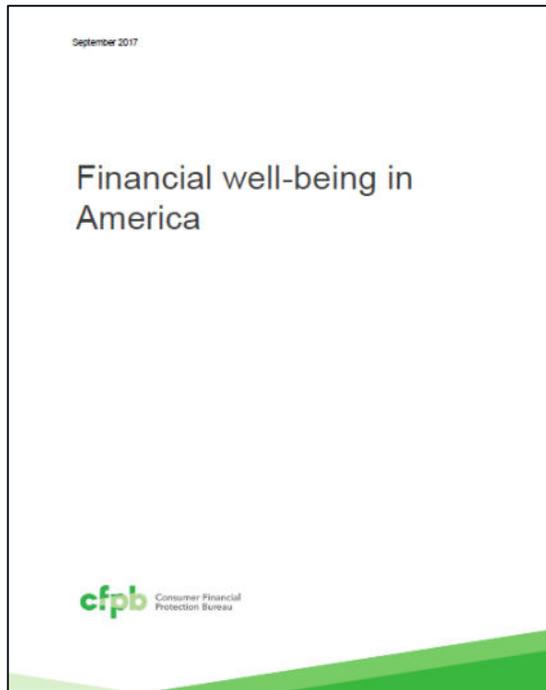


Financial well-being score range	Financial circumstances	Percent of U.S. adult population with scores in this range
≤ 40	Nearly universal financial insecurity	13%
41 to 50	Large majority experiences financial insecurity	21%
51 to 60	A majority are not in financial distress	30%
61 to 70	Large majority experiences financial security	22%
>70	Nearly universal financial security	14%

Scores reflect difficulty making ends meet...



More results...

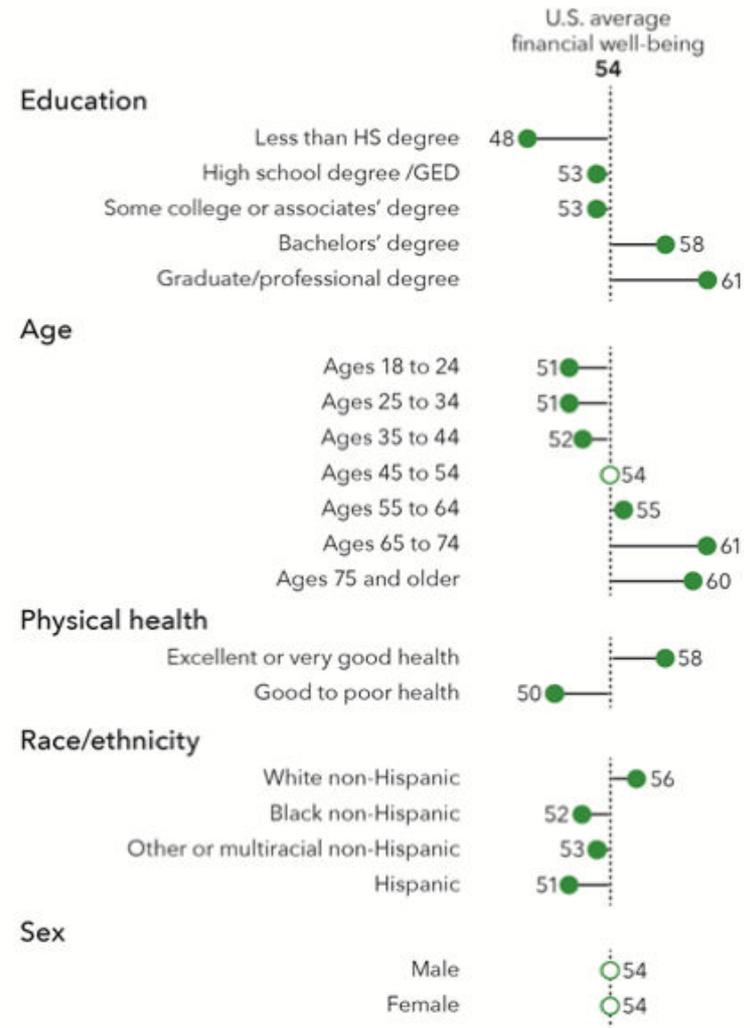


Financial Well-Being in America

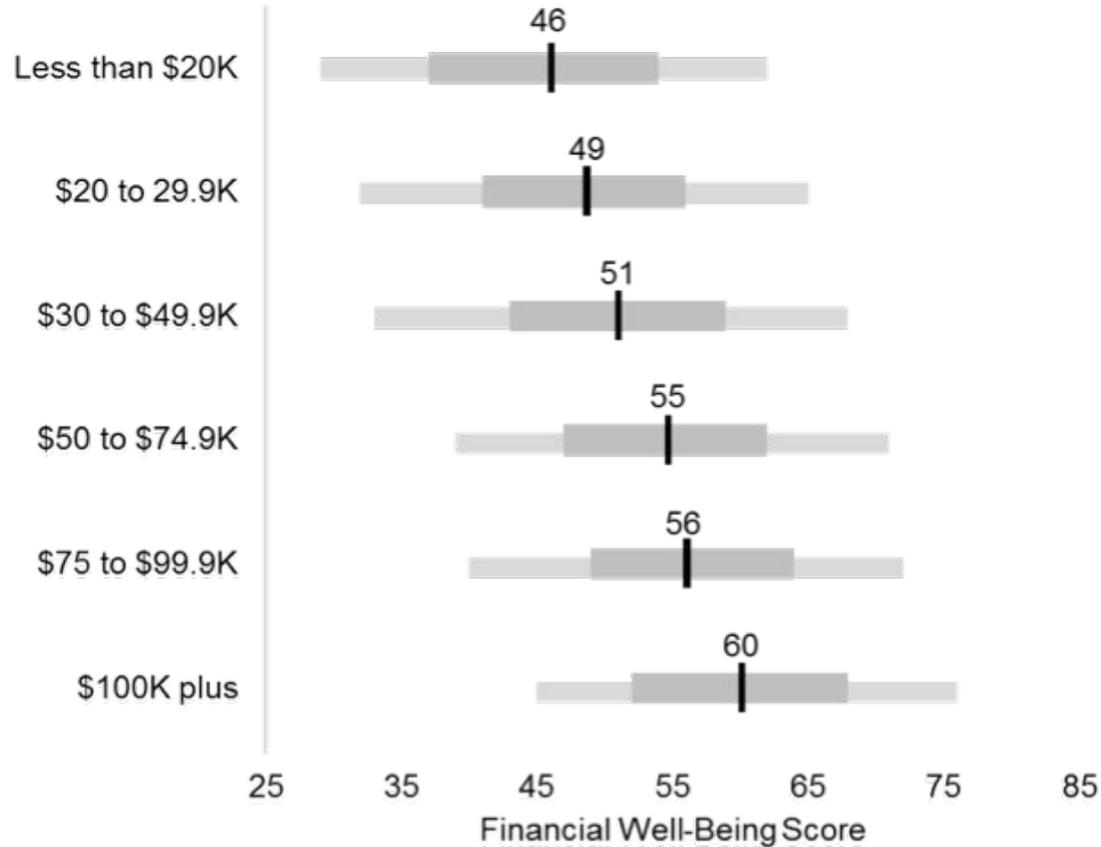
consumerfinance.gov/data-research/research-reports/financial-well-being-america/

Individual characteristics

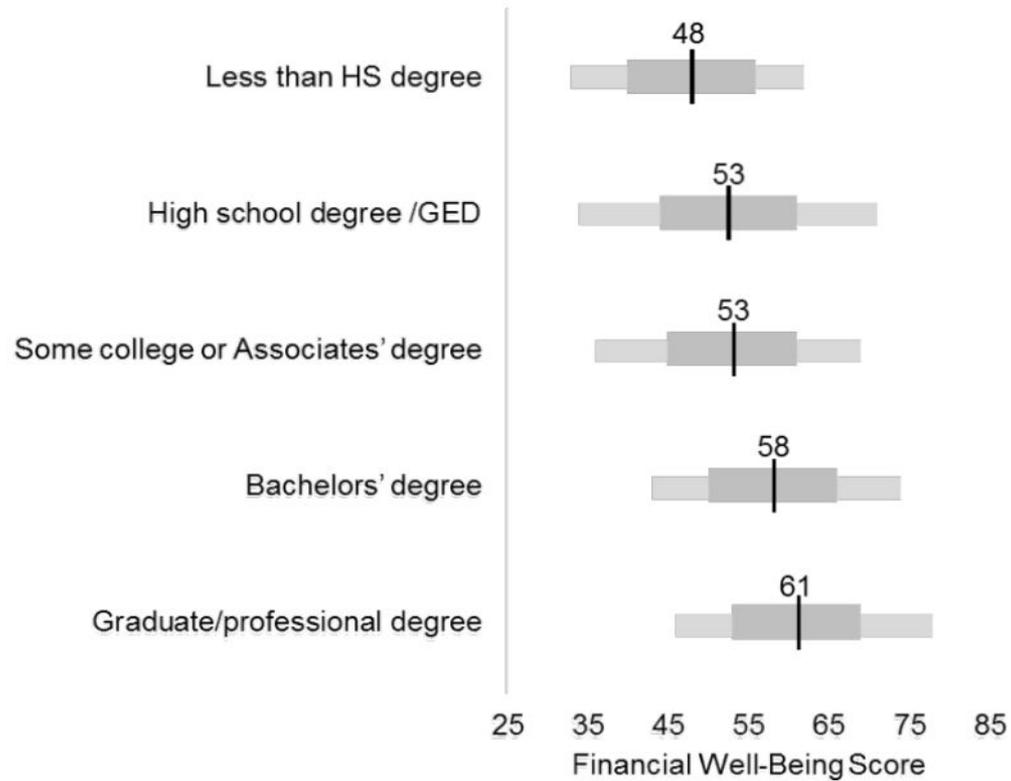
- Education
- Age
- Physical health
- Race/ethnicity
- Sex



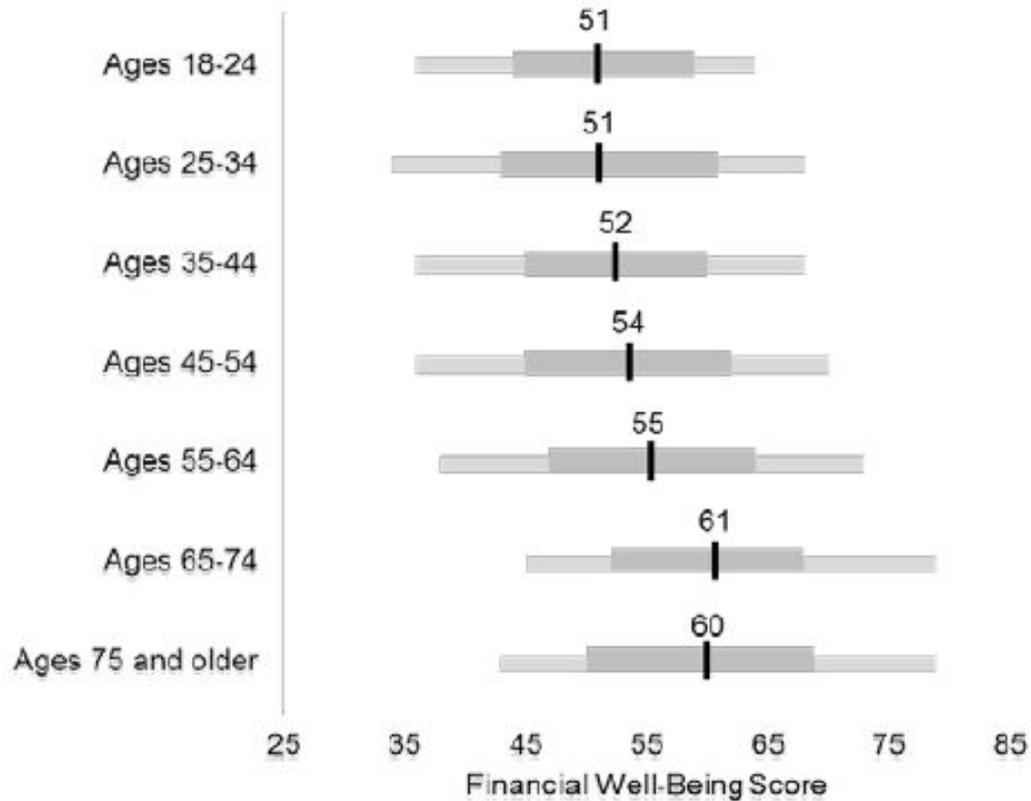
Financial well-being score by household income



Financial Well-Being Scores by Education

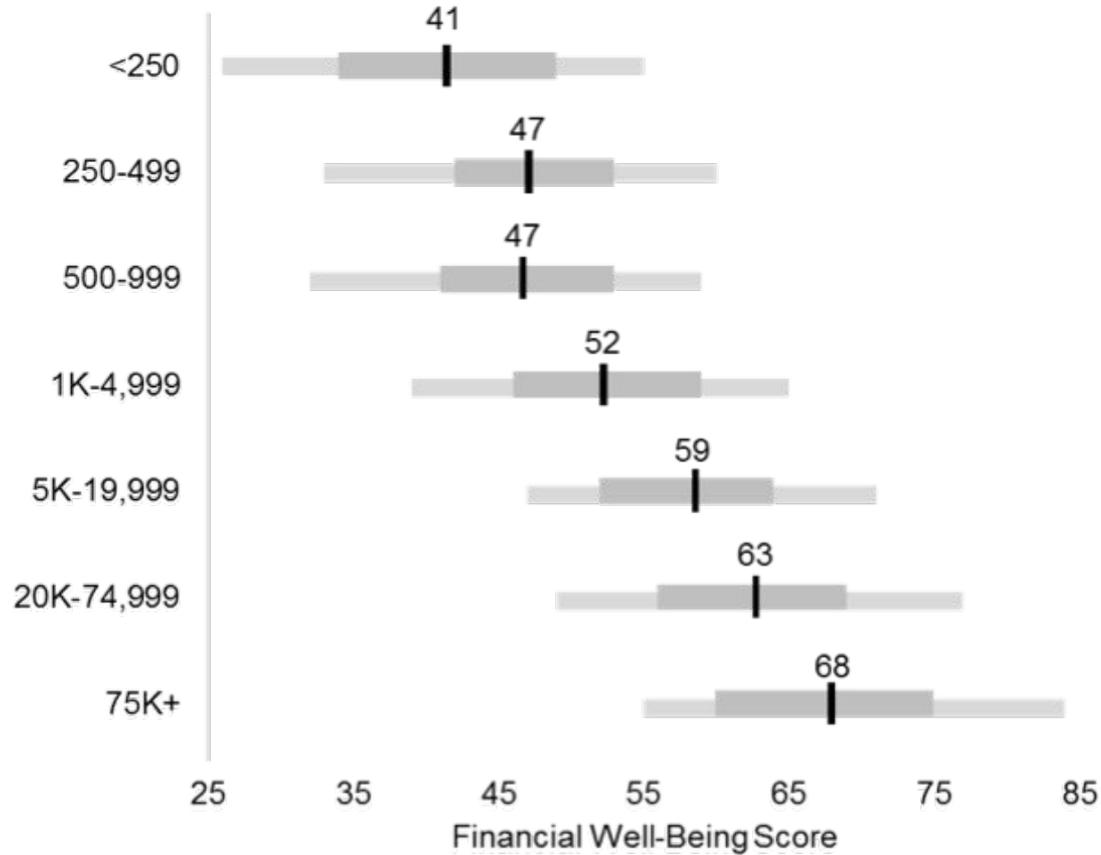


Financial Well-Being Score by Age

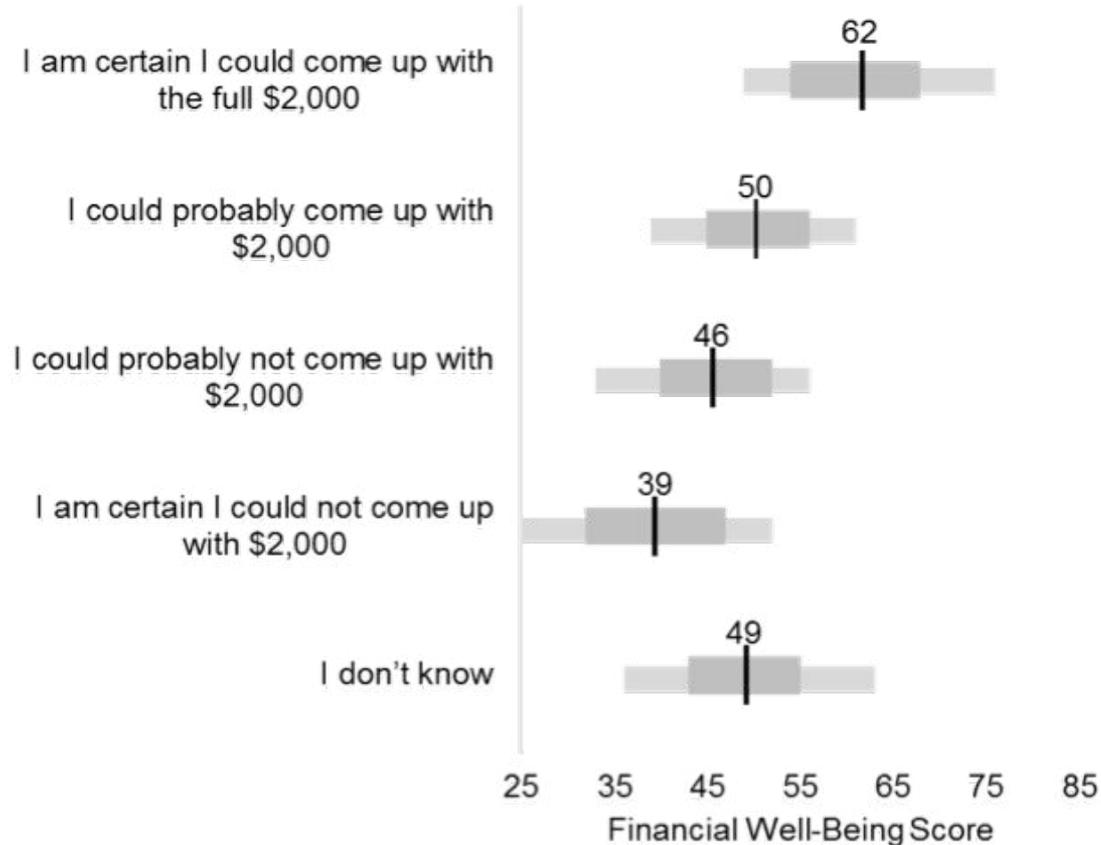


Source: CFPB National Financial Well-being Survey, 2017*

Financial well-being score by liquid savings



Financial well-being score by capacity to absorb an unexpected expense



Public use data file

Download the data

Survey data file

Download the complete survey data as a CSV file, published September 2017. This public use file (PUF) doesn't include personally identifying information of the respondents.

[Download CSV file](#)

Code for analytics tools

Download stub codes to read the survey data into several analytics tools.

[Python](#)

[R](#)

[SAS](#)

[SPSS](#)

[Stata](#)

About the data

User's guide

Learn more about the survey and how to use the public use file.

[Download PUF user's guide](#)

File codebook

See a list of variables, data dictionary, and variable summary statistics for the public use data file.

[Download file codebook](#)

consumerfinance.gov/data-research/financial-well-being-survey-data/

What is the relationship between financial literacy and financial well-being?

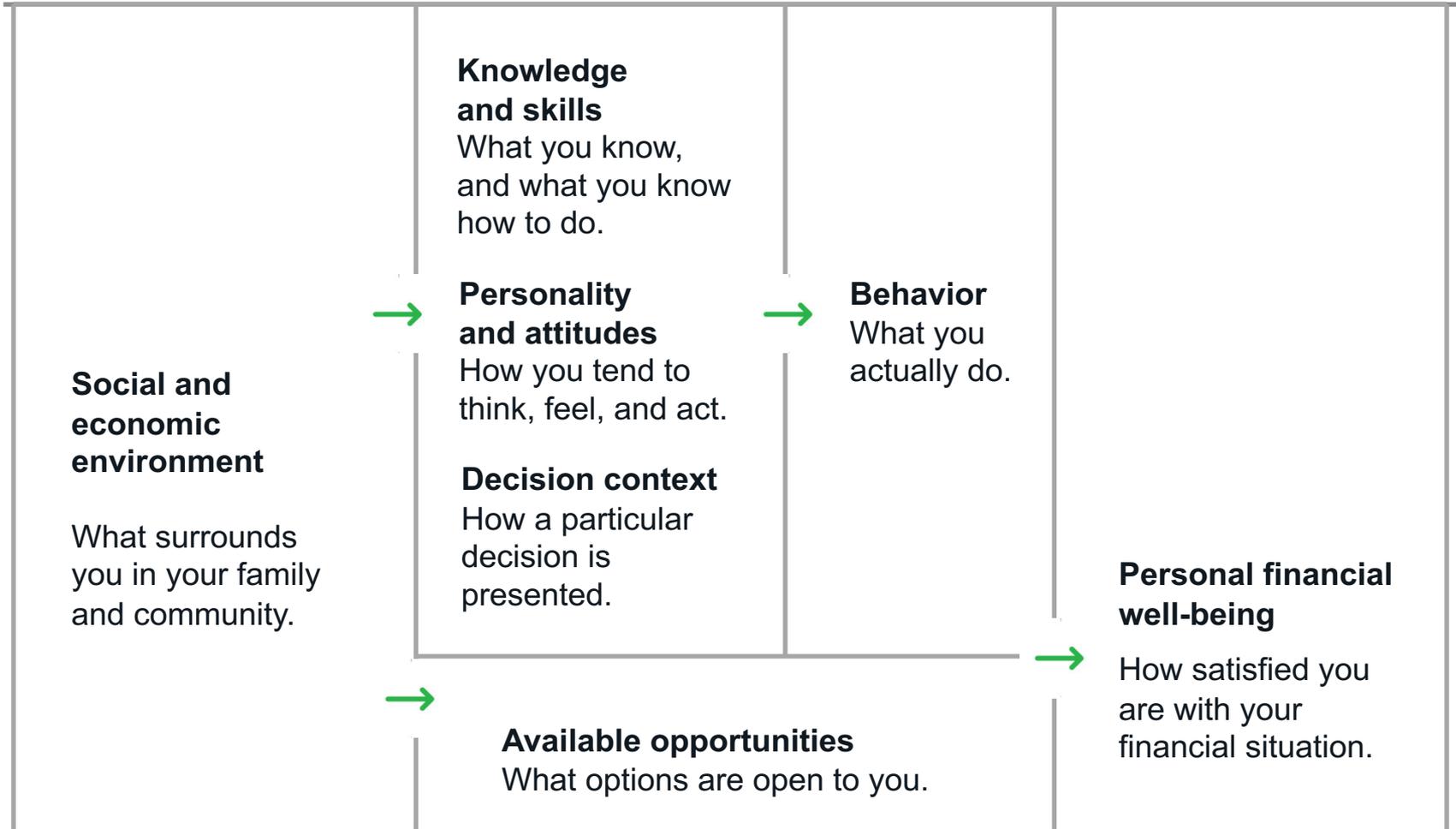
Pathways to Financial Well-Being Study

Data: The study used data from *the Bureau's 2016 National Financial Well-Being Survey*, a nationally representative survey of almost 6,400 adults age 18 and older in the United States.

Analysis: Structural equation model estimation was used to test hypotheses about the associations between financial well-being and financial skill, financial knowledge, financial behavior, and financial situation.

Limitations: The data reveal associations between different factors, but do not support conclusions about causal relationships between them.

What influences financial well-being? Qualitative findings



Key concepts: definitions and measurement

Concepts	What is it	How we measured it
Financial well-being	An individual's ability to meet current and ongoing financial obligations, feel secure in their financial future, and make choices that allow enjoyment of life.	10-item Financial Well-Being Scale
Financial situation	The objective facts of a person's financial situation.	A measure that combined self-reported (1) financial resources (e.g., liquid savings, financial products owned); (2) ability to make ends meet; (3) presence (or absence) of material hardship; and (4) self-reported credit standing.
Financial behavior	Actions an individual does or does not take	A measure that combined of self-reported day-to-day money management behaviors (both managing money and following through on financial commitments), financial planning, and saving habits.
Financial knowledge	Knowledge of general financial facts and concepts (e.g., risk diversification)	10-item version of the Knoll-Houts Financial Knowledge Scale.
Financial skill	Ability to find reliable financial information, process that information, act on it, and adapt as needed to stay on track to achieving goals.	10-item Financial Skill Scale

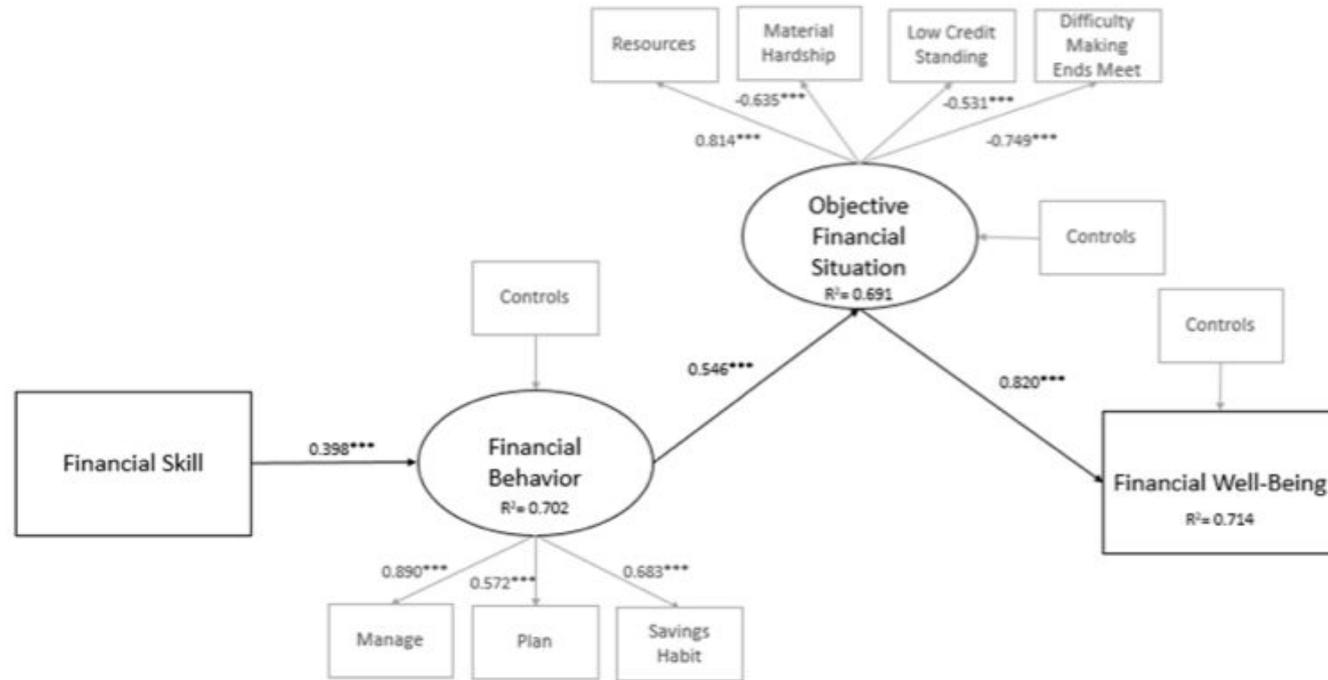
Financial Skill Scale - Questions

Questions	Response Options
How well does this statement describe you or your situation?	
1. I know how to make complex financial decisions [†] 2. I am able to make good financial decisions that are new to me 3. I know how to get myself to follow through on my financial intentions [†] 4. I am able to recognize a good financial investment 5. I know how to keep myself from spending too much 6. I know how to make myself save [†] 7. I know where to find the advice I need to make decisions involving money	<ul style="list-style-type: none">• Describes me completely• Describes me very well• Describes me somewhat• Describes me very little• Does not describe me at all
How often does this statement apply to you?	
1. I know when I do not have enough information to make a good decision involving my money [†] 2. I know when I need advice about my money 3. I struggle to understand financial information* [†]	<ul style="list-style-type: none">• Always• Often• Sometimes• Rarely• Never

* Denotes questions for which the response options are “reverse coded.”

† Denotes questions that are part of the abbreviated (5-question) scale.

Results of the model



SOURCE: Analysis of the 2016 National Financial Well-Being Survey data.

CONTROLS: Income, retirement status, financial self-efficacy, frugality, perceived economic mobility, and self-control.

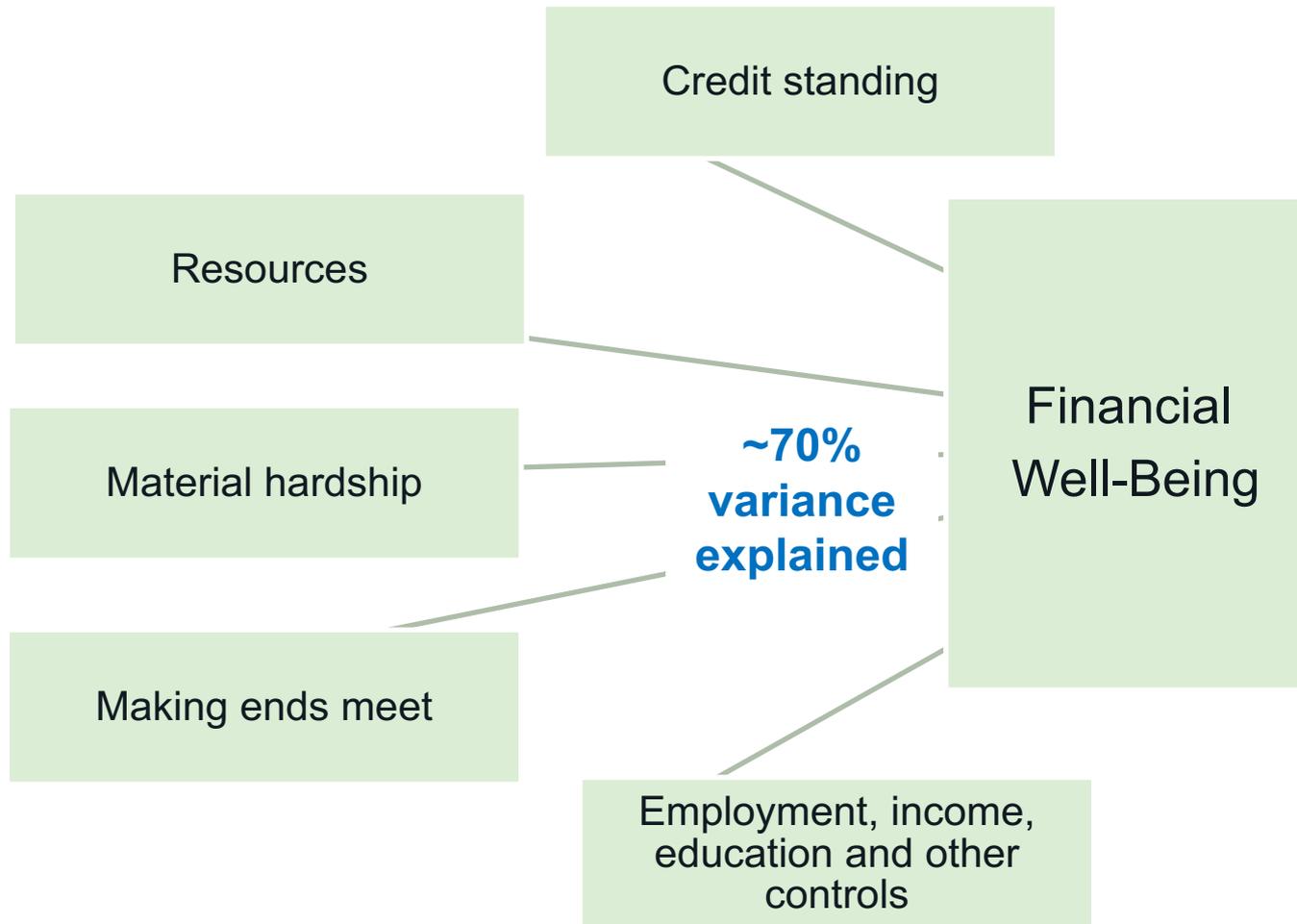
NOTE: N = 6,394. Standardized coefficients for the model of the associations among financial well-being, objective financial situation, financial behavior, and financial skill. Only significant paths shown. * $p < .05$. ** $p < .01$. *** $p < .001$. In the table below, ^c Indicates control variables.

MODEL FIT: χ^2 (df) = 1666.253 (54); RMSEA = 0.068; CFI = 0.911, TLI = 0.862, SRMR = 0.045.

Findings

#1 There is strong association between a respondent's objective or "real-world" financial situation and their sense of financial well-being.

Financial well-being scores reflect real underlying financial circumstances and more



Coefficients for the model estimating the association between financial well-being and objective financial situation

Independent Variable	Coefficient	Standard Error
Objective Financial Situation	0.820***	0.018
Financial self-efficacy ^c	0.093***	0.014
Income ^c	-0.123***	0.016
Self-control ^c	0.053***	0.013
Perceived economic mobility ^c	0.048***	0.011
Retired ^c	0.009***	0.012
Frugality ^c	-0.065***	0.011

*** $p < .001$.

Source: Analysis of the 2016 National Financial Well-Being Survey data.

Findings

#2 Income and behavior have the strongest associations with respondent's objective or "real-world" financial situation.

Coefficients for the model estimating the association between financial behavior and objective financial situation

Independent Variable	Coefficient	Standard Error
Financial behavior	0.546***	0.027
Financial self-efficacy ^c	0.114***	0.019
Income ^c	0.400***	0.016
Self-control ^c	-0.049**	0.016
Perceived economic mobility ^c	0.035***	0.013
Retired ^c	0.194***	0.012
Frugality ^c	-0.085***	0.016

** p < .01 *** p < .001.

Source: Analysis of the 2016 National Financial Well-Being Survey data.

Findings

#3 Financial skill was strongly associated with financial behavior, more strongly than financial knowledge and financial behavior were associated

Coefficients for the model estimating the associations among financial skill and financial behavior

Independent Variable	Coefficient	Standard Error
Financial skill	0.398***	0.018
Financial self-efficacy ^c	0.324***	0.016
Income ^c	0.083***	0.012
Self-control ^c	0.139***	0.014
Perceived economic mobility ^c	0.051***	0.012
Retired ^c	0.130***	0.010
Frugality ^c	0.166***	0.014

[Financial Knowledge was not significant]

*** $p < .001$.

Source: Analysis of the 2016 National Financial Well-Being Survey data.

Model estimating the relationship between **financial skill, knowledge** and **financial behavior** (Lusardi & Mitchell)

Independent Variable	Coefficient	Sig.	Std. Error
Financial skill	0.432	***	0.017
Financial knowledge	-0.010		0.012
Financial self-efficacy	0.299	***	0.016
Frugality	0.144	***	0.015
Perceived economic mobility	0.038	**	0.012
Self-control	0.123	***	0.014
Income	0.021		0.014
Retired	0.045	**	0.016
Age	0.112	***	0.015
Discount/time preference	0.076	***	0.011
Education level (Bachelor's)	0.003		0.011
Black, non-Hispanic	-0.070	***	0.012
Hispanic	0.071	***	0.013
Multi-racial, non-Hispanic	-0.006		0.013
Other race, non-Hispanic	0.037	**	0.013
Female	0.046	***	0.010
Employed	0.018		0.016
Employer benefits	0.056	***	0.013
Financially supported children	-0.057	***	0.012
Married	0.032	**	0.011
Professional financial advice	0.054	***	0.010
Family financial socialization	0.036	**	0.012

*** p < .001 ** p < .05.

Source: Analysis of the 2016 National Financial Well-Being Survey data

Findings

#4 Using a comprehensive measure of financial knowledge does not change the relationship between financial skill, financial knowledge and financial behavior.

Model estimating the relationship between **financial skill, knowledge** and **financial behavior (Houts & Knoll)**

Independent Variable	Coefficient	Sig.	Std. Error
Financial skill	0.432	***	0.017
Financial knowledge	-0.011		0.014
Financial self-efficacy	0.300	***	0.016
Frugality	0.144	***	0.015
Perceived economic mobility	0.038	**	0.012
Self-control	0.123	***	0.014
Income	0.022		0.014
Retired	0.045	**	0.016
Age	0.112	***	0.015
Discount/time preference	0.076	***	0.011
Education level (Bachelor's)	0.003		0.011
Black, non-Hispanic	-0.071	***	0.013
Hispanic	0.071	***	0.013
Multi-racial, non-Hispanic	-0.006		0.013
Other race, non-Hispanic	0.037	**	0.013
Female	0.045	***	0.010
Employed	0.018		0.016
Employer benefits	0.056	***	0.013
Financially supported children	-0.057	***	0.012
Married	0.032	**	0.011
Professional financial advice	0.054	***	0.010
Family financial socialization	0.036	**	0.012

*** p < .001 ** p < .05.

Source: Analysis of the 2016 National Financial Well-Being Survey data

Implications

The resulting model of inter-connected pathways suggest that financial education can help consumers improve their financial situations and ultimately, financial well-being, by helping them to improve their financial skill and financial behavior.



Resources

Find out your financial well-being

Find out your financial well-being

Answer ten questions to measure your current financial well-being and see steps you can take to improve it.



Interactive tool that allows consumers to:

- Answer the questions and get their score
- Find steps they can take to improve their financial well-being
- See how their score compares to other U.S. adults

consumerfinance.gov/financial-well-being

Reports and guides

- *Financial Well-Being Scale: User guides, questionnaires, and scoring materials*
consumerfinance.gov/data-research/research-reports/financial-well-being-scale/
- *Financial well being: The goal of financial education*
consumerfinance.gov/data-research/research-reports/financial-well-being/
- *Financial Well-Being in America*
consumerfinance.gov/data-research/research-reports/financial-well-being-america/