



The Association Between Financial Well-Being and the Ability to Make Complex Financial Decisions Amongst Adults With Varying Levels of Belief in Hard Work



Austin McCarthy, Quantitative Analysis Center, Wesleyan University

Introduction

- The middle class has been shrinking in the United States over time. In the 50 year period from 1971-2021, the middle class decreased from 61% to 50% of the population after both the higher and lower income tiers increased in size (Pew Research Center, 2022).
- Literature on the topic emphasizes different types of complex financial decisions as the best way to improve financial situation. Fewer literature sources mention hard work as a way to be successful financially, and those that do mention it warn that it must be a supplement to financial decisions and not an alternative option.
- Most research has focused on which types of financial decisions have improved people's financial well-being
- Alternately, however, belief in hard work to be successful may also be essential to achieve high levels of financial well-being

Methods

Sample

- Adults in the United States, all of varying financial statuses, were drawn from the National Financial Well-Being Survey (FinancialWB)
- The FinancialWB sample includes 6,394 participants and represents all adults ages 18 and above from the 50 states and the District of Columbia. All data was collected between October 27, 2016 and December 5, 2016.

Measures

- Level of financial well-being was determined through Financial Well-Being Score, a number between zero and 100 that determines respondents' underlying level of financial well-being as determined by experts based on responses for survey items throughout the entire FinancialWB study.
- Ability to make complex financial decisions was measured by respondents' confidence level in their ability to make complex financial decisions
- Belief in hard work was measured by respondents' level of agreement to the statement "If I work hard today, I will be more successful in the future"

Research Questions

- Does increasingly high ability to make complex financial decisions lead to higher levels of financial well-being?
- Does a belief in hard work to be financially successful lead to strong financial well-being, or does that belief shield Americans from finding ways supplement their hard-earned income?

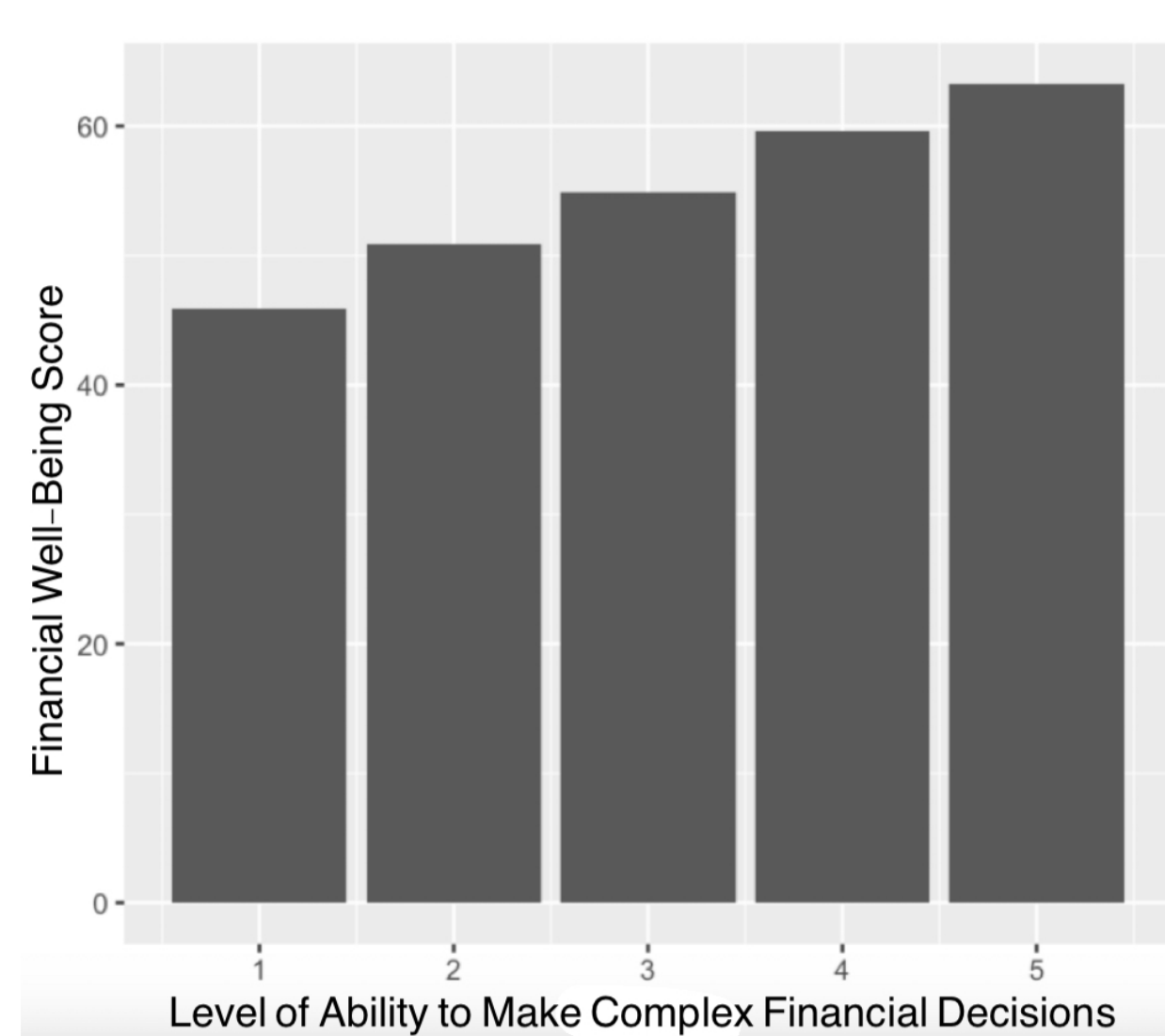
Results

Univariate

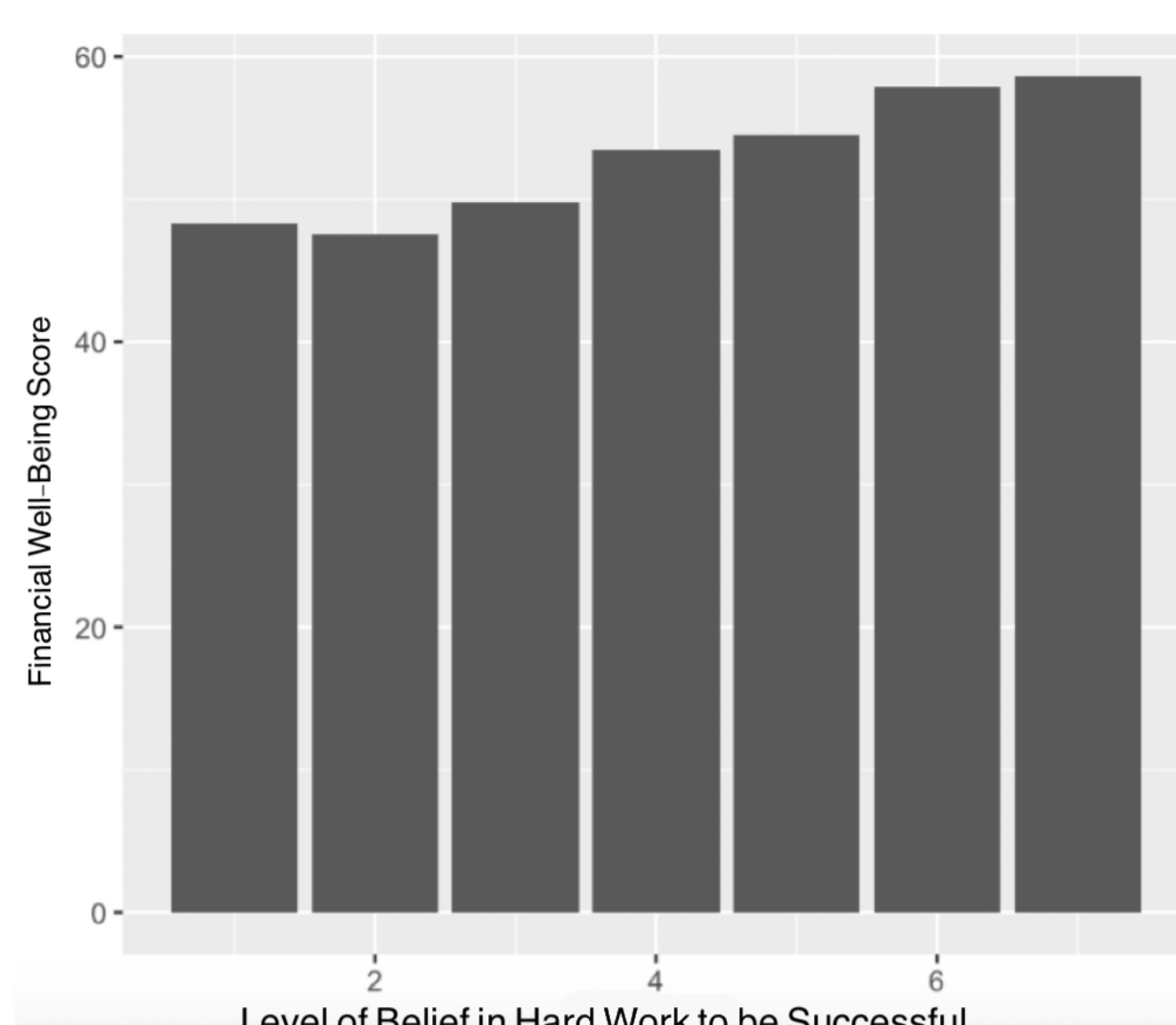
- The mean Financial Well-Being score was 56.08, the median was 56.00, and the standard deviation was 14.068.
- 87% of respondents were in the range of knowing how to make complex financial decisions to some degree, leaving few to know how completely or not at all.

Bivariate

- ANOVA test results showed a significant positive relationship between ability to make complex financial decisions and Financial Well-Being Score ($p < 0.001$). The relationship can be seen in the figure below



- A separate ANOVA test also showed a positive linear relationship between belief in hard work and Financial Well-being Score ($p < 0.001$). The relationship can be seen in the figure below



Multivariate

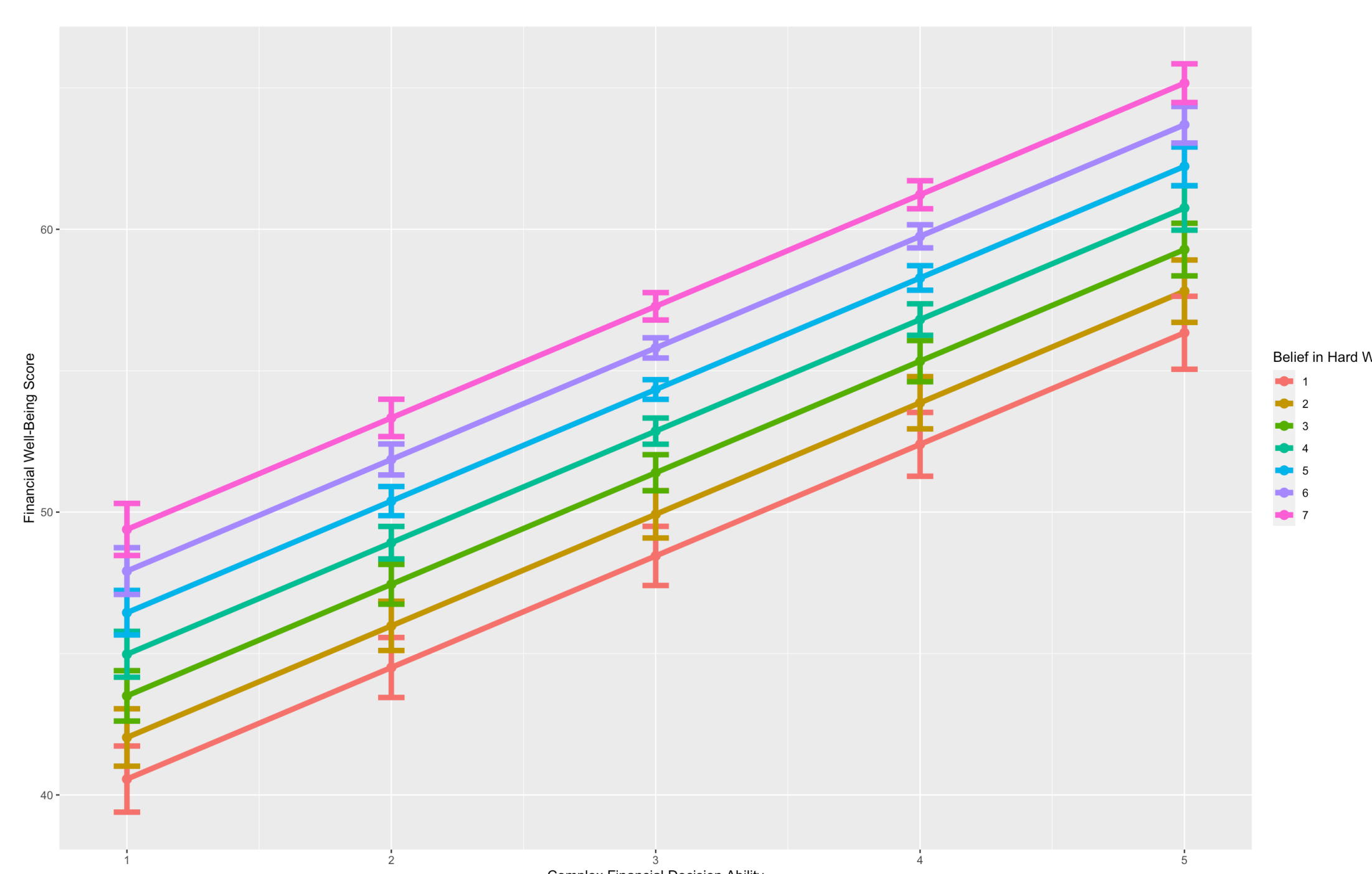
- Results from multiple linear regression showing association between ability to make complex financial decisions and level of financial well-being controlling for belief in hard work:

Level of ability to make complex financial decisions	Coefficient	P-value
2 (Very little)	4.47867	<0.001
3 (Somewhat)	8.07234	<0.001
4 (Very well)	12.48375	<0.001
5 (Completely)	15.97567	<0.001

- Results from multiple linear regression showing association between belief in hard work and level of financial well-being controlling for ability to make complex financial decisions:

Level of belief in hard work to be successful	Coefficient	P-value
2 (Next level above strongly disagree)	0.00646	0.997
3	1.87919	0.150
4	5.32712	<0.001
5	5.91534	<0.001
6	8.73789	<0.001
7 (Strongly agree)	8.34123	<0.001

- Below is the linear regression model for this study



Discussion

- Individuals with higher confidence in their ability to make complex financial decisions are more likely to have higher levels of financial well-being as can be statistically inferred by the significantly increasing values.
- Individuals with a belief in hard work to be successful are also more likely to have higher levels of financial well-being as can be statistically inferred by the significantly increasing values.
- This study serves as evidence supporting both hard work and complex financial decisions to be paired together as a way to gain financial success.
- Further research is needed to determine which specific financial decisions commonly are associated with high levels of financial well-being and how they are paired with hard work.

Chen, S. (n.d.). Financial Literacy: The Foundation Of Financial Freedom. Forbes. Retrieved February 6, 2024, from <https://www.forbes.com/sites/stephenchen/2022/04/01/financial-literacy-the-foundation-of-financial-freedom/?sh=1c6be3c83548>

How the American middle class has changed in the past five decades | Pew Research Center. (2022, April 21). Pew Research Center. <https://www.pewresearch.org/short-reads/2022/04/20/how-the-american-middle-class-has-changed-in-the-past-five-decades/>

House, W. (2021, December 2). The Cost of Living in America: Helping Families Move Ahead. The White House. <https://www.whitehouse.gov/cea/written-materials/2021/08/11/the-cost-of-living-in-america-helping-families-move-ahead/>

Medina, Juan Carlos. "The Most Important First Step toward Achieving Financial Freedom." Forbes. Forbes Magazine, 24 Jan. 2024. www.forbes.com/sites/juancarlosmedina/2023/12/18/the-most-important-first-step-towards-achieving-financial-freedom/?sh=15e1cd2e3d6e

Mudumba, R. (2021, May 26). Does Hard Work Lead To Financial Freedom? Mind Talk. <https://medium.com/mind-talk/does-hard-work-lead-to-financial-freedom-589a544f7388>

Roddel, S. (2023, June 12). Working hard for money decreases consumers' willingness to risk their earnings, study shows. Notre Dame News. <https://news.nd.edu/news/working-hard-for-money-decreases-consumers-willingness-to-risk-their-earnings-study-shows/>

7 Habits to Help You Achieve Financial Freedom. (n.d.). Capital One. <https://www.capitalone.com/learn-grow/money-management/financial-freedom/>