The Relationship Between Financial Well-Being and Short Term vs Long Term Financial Behavior

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Introduction

- Countless studies have attempted to understand the factors that contribute to financial well-being- a person's financial security and freedom of choice.
- A financial behavior scale was used to accurately predict a user's level of debt and savings (Dew and Xiao), a close indicator of financial well-being.
- These financial behaviors (defined as the choices or actions people make with their money) can be placed into two categories, short term or long term (Henager & Cude, 2016).
- Short term financial behaviors have shown a significantly positive effect on financial well-being while surprisingly, long term financial behaviors have shown a significantly negative effect on financial well-being (Fan & Henager, 2021), however little was done to analyze which had a stronger effect on FWB.
- Age has been associated with long term financial behavior (Wagner & Walstad, 2019), but it is yet to be seen whether this effects financial well-being.

Research Questions

- How is financial well-being associated with short vs long term financial behaviors?
- Does this relationship differ based on age?

Methods

Sample

- Respondents (n=6,381) were drawn from the 2017 National Financial Well-Being Survey Public Use File- a nationally representative sample of adults in the U.S.

Measures

- Financial well-being was assessed using the financial well-being questionnaire. Respondents' answers were summed to create a composite score between 0 (most negative) and 100 (most positive).
- Short term financial behavior was assessed similarly, summing the responses to five questions about behaviors like ability to stick to a budget and pay bills on time. Scores ranged from 0 (most negative) to 20 (most positive) and were then scaled by a factor of 5 for comparability.
- Similarly, long term financial behavior was assessed by summing binary responses to eight long term financing questions like whether or not you have a retirement plan. Scores ranged from 0 (most negative) to 8 (most positive) and were then scaled by a factor of 12.5 for comparability.
- Age was split into nine categories encompassing a range of 18 to 75 plus.

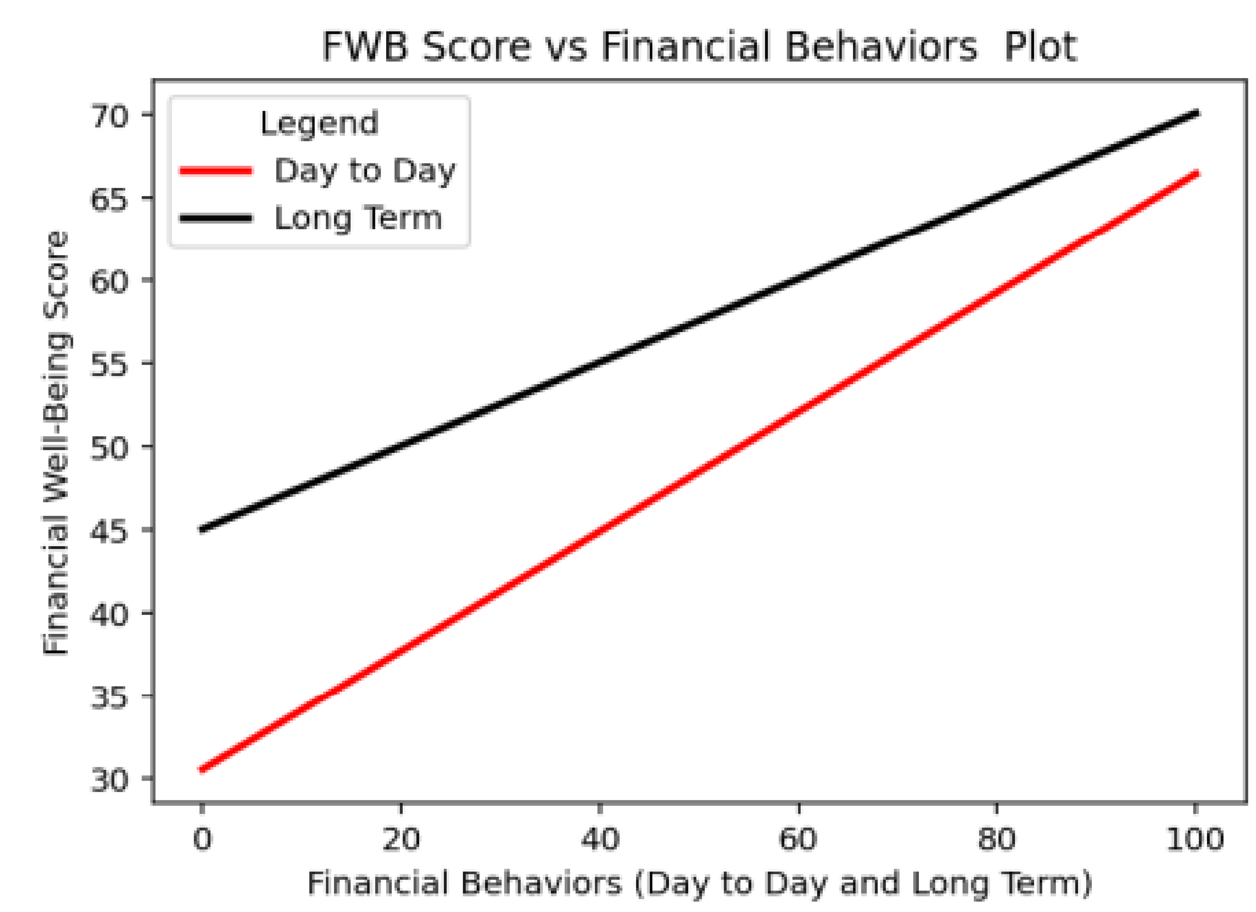
Results

Univariate

Score	Mean	Standard Deviation	Distribution
Financial Well-Being	56.08	14.07	Normal
Short Term Behavior	71.08	18.57	Left Skew
Long Term Behavior	43.99	22.43	Approx. Normal

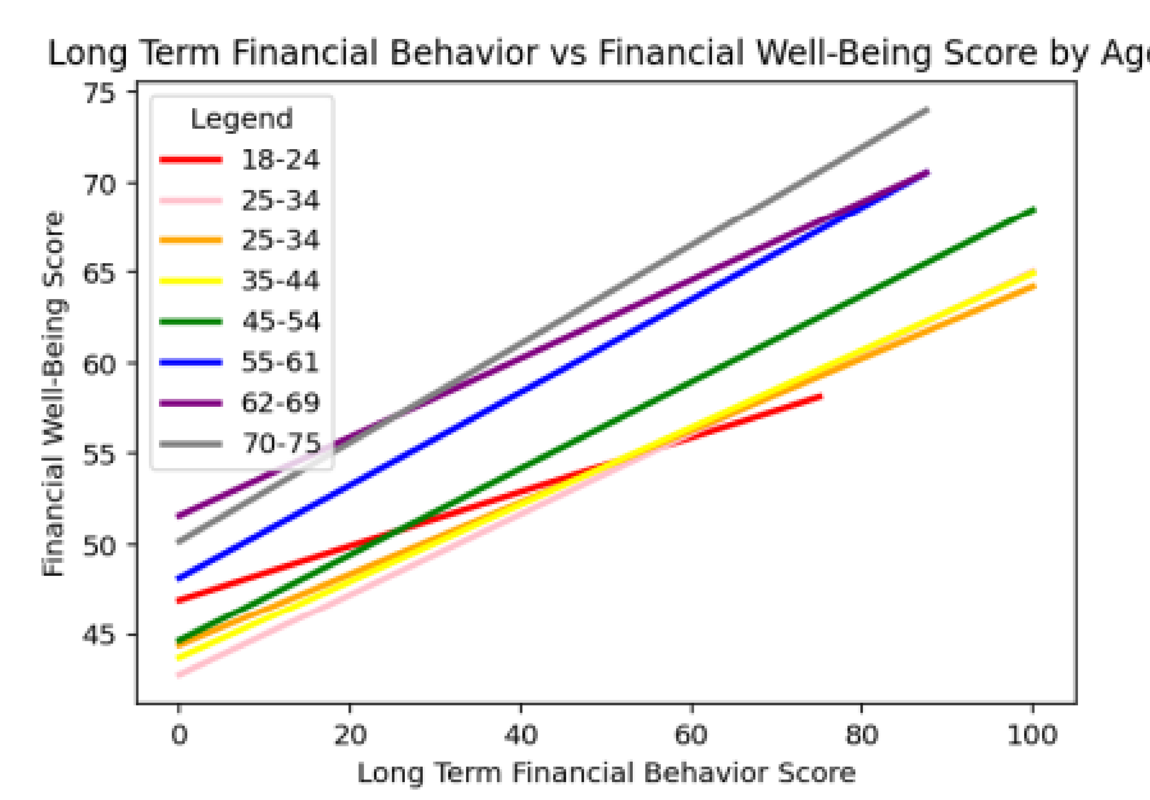
Bivariate

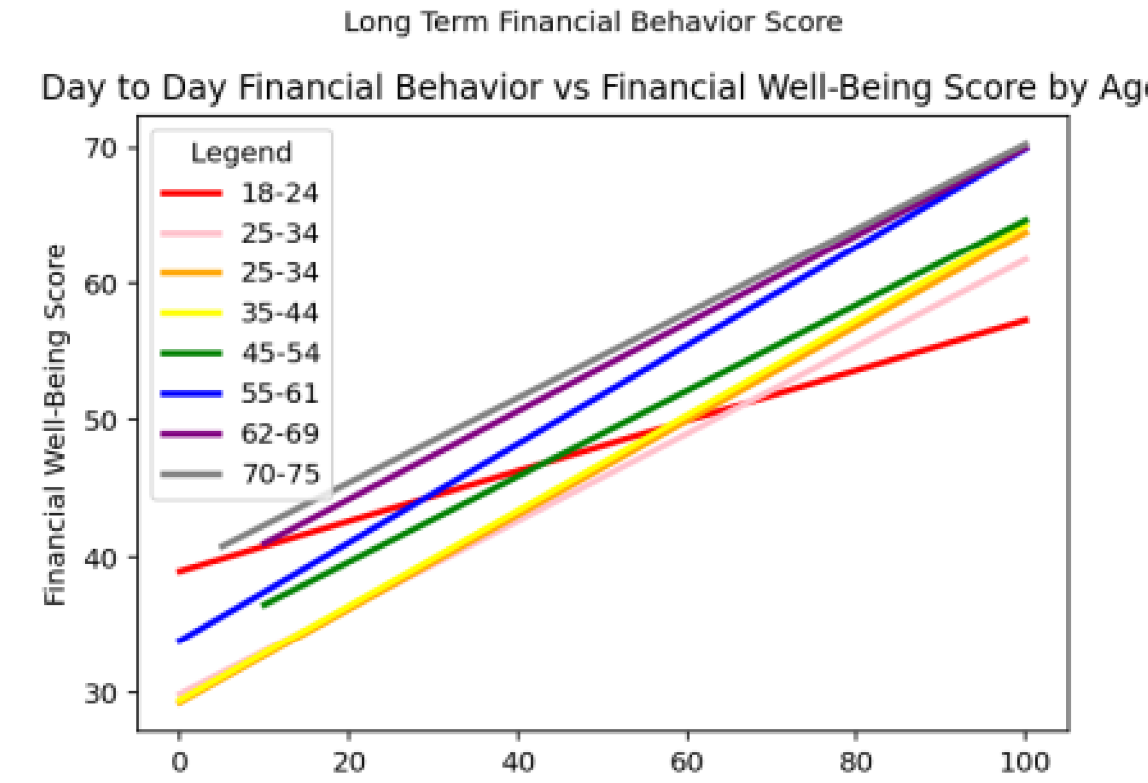
- A Pearson correlation test showed that short term financial behavior is significantly and positively correlated with financial well-being score (r=0.47, p<0.000).
- Another Pearson correlation test showed that long term financial behavior is significantly and positively correlated with financial well-being score (r=0.40, p<0.000).



Multivariate

- Short term financial behaviors were found to be a positive significant indicator of financial well-being (B=0.24, p<0.000).
- Long term financial behaviors were also found to be a positive significant indicator of financial well-being (B=0.09, p<0.000).
- Age is not a significant indicator of FWB (B=-0.42, p=0.16).
- Using age as an interaction term shows that it is a moderator for both the association between short term behaviors vs FWB (B= 0.010, p<0.01) and long term behaviors vs FWB (B=0.019, p<0.000).





Discussion

- Short term financial behaviors have a stronger effect on overall financial well-being than their long term counter parts. As short term behavior improves by one unit, FWB increases by 0.24 units. This is almost double the effect of long term behavior, since as it increases by one unit of the same magnitude, FWB only increases by 0.09 units.
- The older a person is, the larger the effect an improvement in short or long term financial behavior score has on overall financial well-being. Specifically, this relationship is stronger with respect to long term than short term financial behavior.
- Americans can use this to recognize how their financial well-being will be effected by their different types of behaviors as they age in order to live more free and secure lives.
- Future research should look to extrapolate this relationship to overall well-being, not just in regard to finance.

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Fan, L., & Henager, R. (2021, September 16). *A structural determinants framework for financial well-being - journal of family and economic issues*. SpringerLink. https://link.springer.com/article/10.1007/s10834-021-09798-w#ref-CR63

Henager, R., & Cude, B. J. (2015, November 30). *Financial literacy and long- and short-term financial behavior in different age groups*. Journal of Financial Counseling and Planning. https://eric.ed.gov/?id=EJ1161904

Wagner, J., & Walstad, W. B. (2018, June 8). *The Effects of Financial Education on Short-Term and Long-Term Financial Behaviors*. Wiley Online Library. https://onlinelibrary.wiley.com/doi/abs/10.1111/joca.12449