

# Financial Wellness and Financial Health – What Are They, What Drives Them, and What Will People Do to Improve Them?

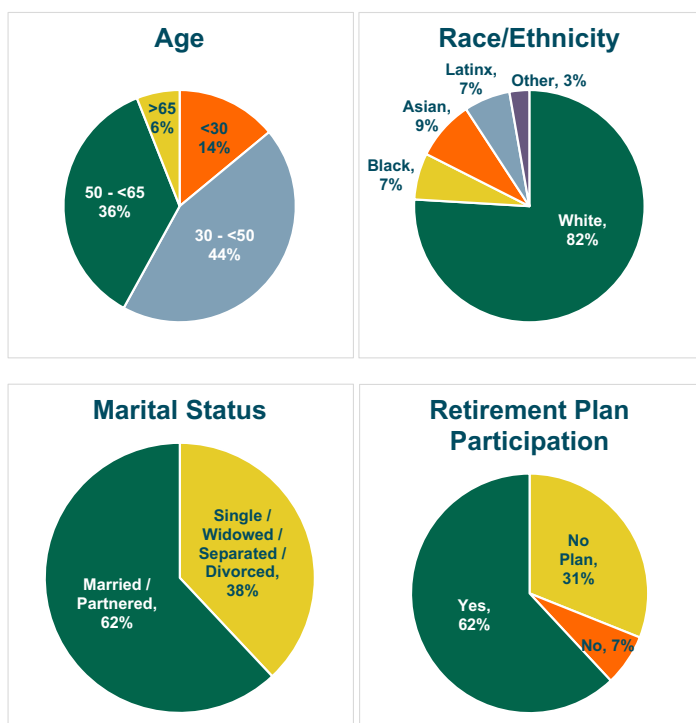
## Contributors

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## INTRODUCTION

Most Americans face a common dilemma; we all need to save for our future retirement. In a perfect world, one would start saving and investing early in adulthood and continue to do so persistently until retirement. For most people, however, life is not that simple. There are other financial goals or financial commitments that come up along the way: student loans, purchasing a home, and starting a family, to name but a few. Oftentimes, these additional responsibilities prove to not only be a barrier to retirement savings but to overall financial health as well. Moreover, the opportunities and barriers, like much in our society, are not evenly distributed. Collectively, the opportunities and barriers associated with our financial health are often referred to as the determiners of financial wellness.

DCIIA's Retirement Research Center (RRC) recently undertook a study to better understand not only the levels of financial wellness among Americans but also how individuals define their own wellness, whom they trust to help them better it, and how they seek to achieve it. Most importantly, the study sought to understand what trade-offs individuals are willing to make to become more financially well. To do this, the RRC surveyed over 2,000 individuals, split evenly between men and women. Other characteristics of the survey sample include:



There are many definitions of financial wellness, but for the purposes of this analysis we will stick to two commonly accepted definitions. The first is offered by the Consumer Financial Protection Bureau (CFPB), a government agency that is responsible for consumer protection in the financial sector. The CFPB defines financial wellness as whether a person is able to fully meet current and ongoing financial obligations, feel secure in their financial future, and make choices that allow them to enjoy life.

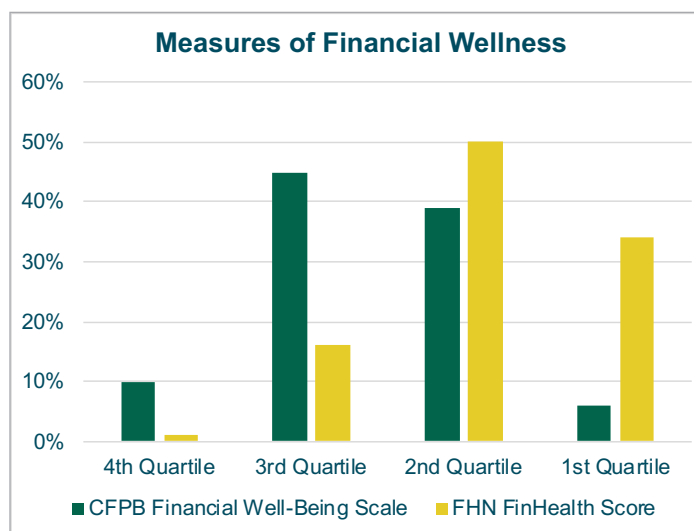
The second definition is offered by the Financial Health Network (FHN), which is a not-for-profit that seeks to improve the financial health of people to ensure they can be financially resilient and thrive. FHN defines financial wellness as whether people are spending, saving, borrowing, and planning in a way that will either contribute to, or detract from, their resilience in the face of unexpected events and their ability to thrive in the long term.

While the missions of the two organizations are related, how they measure financial wellness is different. In short, CFPB measures how people feel about their finances and FHN measures what they do. For the sake of our analysis, we will focus primarily on the CFPB measure as our basis of comparison.

To begin our analysis, we looked at how our sample aligns with our two definitions. In **Exhibit 1**, we examine both the CFPB Financial Well-Being and FHN FinHealth indices of our survey population. For simplicity's sake, let's assume that the CFPB is representative of well-being and FHN is representative of capability.

Exhibit 1 shows each measure's distribution of the survey population, expressed in quartiles. Interestingly, the data suggest that financial well-being and capability are not the same thing. In other words, one's behaviors may not translate into desired outcomes, whether real or perceived. This highlights one of the greater challenges of getting people to save for retirement, which is often a long way off. Put differently, spending and saving are both forms of consumption. The difference between the two is found in the timing of the consumption and in the behavioral preference implicit in it. Thus, if one cannot connect current behaviors to future outcomes, the tendency will be to favor near-term consumption (spending) over deferred consumption (saving), which is what the data suggest. This tendency will be explored further in this paper through analysis of the characteristics of what it means to be financially well and what actions, if any, people are willing to take to improve their level of financial wellness.

**Exhibit 1**  
**Financial Well-Being and Capability Are Not the Same Thing**



Source: DCIIA RRC

### WHO'S BEING LEFT BEHIND?

Our data also suggest that some are more financially well than others. To better understand who is being left behind and why, we ran a series of regression analyses to identify the factors that most highly correlated with high wellness scores. Leaving differences between the CFPB's and FHN's financial wellness definitions aside, we found that what leads to financial well-being or capability are similar for both measures. Our analysis reveals that one's score is significantly correlated to several demographic factors, including:

- Age (increases with age)
- Gender (Males are associated with higher financial wellness)
- Full-time work-status
- Education (increases with years of education)

One's score is also significantly associated with financial characteristics (positive):

- Income
- Home equity
- Cash
- 401(k) balances (which presumes plan participation)
- IRA balances
- Emergency savings balances

Importantly, financial wellness is negatively correlated to:

- Student debt
- Credit card debt

### Exhibit 2

#### Demographic and Wealth Factors Drive CFPB Financial Well-Being and FinHealth

(statistically significant variables that drive index scores)

	CFPB Well-Being	FHN FinHealth		CFPB Well-Being	FHN FinHealth
Age	.006	.209	Home equity	.081	.209
Male	1.50	2.14	Cash / Checking	.940	1.39
FT work	2.25	6.68	401(k)	.116	
Couple	2.54	4.09	Emergency Savings	.250	.271
Education level	1.22	1.91	Income	.869	3.41
			Student loan debt	-.078	-.221
			Credit card debt	-.356	-.700

Source: DCIIA RRC

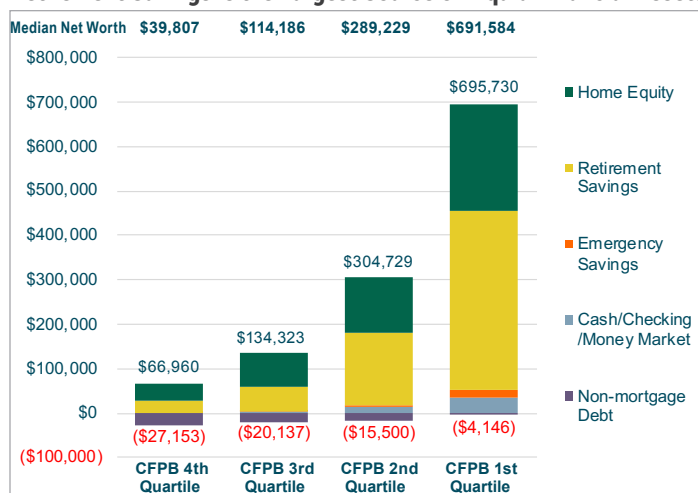
Of course, there are other factors, such as race and ethnicity, that correlate to both the CFPB and FHN measurement scales. However, what the data also show is that those factors are often correlated with other factors such as education and income. For example, it is well-established that home ownership is correlated with wealth creation and that education is correlated with income. Accordingly, racial and ethnic disparities in both the levels of education or homeownership will also result in having lower Well-Being or FinHealth scores. The nature of these relationships adds further context to who is being left behind, but not to what remedies may exist.

### REALITY VERSUS PERCEPTION

Having established the relationships between various factors and financial wellness, it is helpful to contextualize what this means in terms of both wealth (e.g., cash, savings, home equity, etc.) and debt (e.g., mortgage, credit card, student loans, etc.). **Exhibit 3** shows the median values of certain types of assets and liabilities. (Please note that home equity is the result of subtracting mortgage debt from the value of one's home, and that student loan debt and credit card debt are added together). Also, not every survey respondent has each type of asset or liability. Lastly, median values were used rather than average values, which makes the differences in both wealth and debt appear even greater.

### Exhibit 3

#### Retirement Savings is the Largest Source of Liquid Financial Assets



Source: DCIIA RRC

What the data show is that for most people, regardless of their CFPB Well-Being quartile, retirement savings and home equity are the primary sources of wealth and that few have other means of financial resiliency if faced with a significant unplanned expense. Further, there is an inverse relationship between wellness and debt. Those with lower levels of well-being are both more likely to have debt and higher levels of it. Not surprisingly, the effect of wealth is the opposite.

What is also interesting to note is respondents' lack of awareness of their condition. For example, when asked to self-describe their credit scores, 51% of those whose wellness scores were in the 3rd quartile described their credit score as "excellent" or "very good." The percentage rises to 81% for those in the 2nd quartile. What this may suggest is confusion between simply having access to credit and having access to credit on favorable terms. Not surprisingly, most of this same group feels that it is carrying a manageable amount of debt, 53% and 67% respectively. Despite the apparent belief that one can manage today's obligations, it does not translate into confidence in achieving long-term financial goals. Only 45% of those in the 3rd quartile are "very" or "moderately" confident they will be able to do so. Surprisingly, this falls to 39% for those in the 2nd quartile.

What the data tell us is that many of those we surveyed are forced to engage in financial alchemy daily. They may own a home, have modest retirement savings, but really don't have the resources to be financially resilient. This is true for most of those surveyed, except for those in the 1st quartile (highest net worth). Those in the 3rd and 4th quartiles (lowest net worth) are inarguably the most vulnerable. When asked if "finances control their lives," 95% of those in the 4th quartile and 45% of those in the 3rd quartile said this was either "always" or "often" the case. Lastly, 85% of those surveyed described their current financial situation as either "just getting by" or "struggling." The data paint a challenging story. There is a dissonance between what people do daily to get by and how those actions connect to their financial futures. The promise of financial wellness is that it can create behaviors that establish those linear connections. To that end, we will now turn our attention to how our survey respondents would like to engage to improve their financial wellness.

### IMPROVING FINANCIAL WELLNESS – WHAT ARE PEOPLE WILLING TO DO TO IMPROVE?

Financial wellness, in and of itself, is not a remedy for systemic societal and economic injustices. It can, however, help individuals improve their personal situations within the framework of the resources available to them. To gain insight into what people are willing to do to improve their financial wellness, a trade-off analysis was conducted with the survey respondents. People were asked how likely they were to complete seven steps to improve their financial wellness. Specifically, a trade-off analysis was performed to determine which would be the most likely and least likely steps they would take to improve their situation. The steps are:

- Bring your lunch to work
- Buy a cheaper car

- Get a smaller living area
- Buy store brands
- Move to a cheaper neighborhood
- Cut up your credit cards/don't use debt
- Make and follow a financial plan

The results below indicate the relative willingness people had, on average, to perform each activity or step to improve their financial wellness. The preference scores add up to 100. Importantly, the scores simply indicate relative willingness to perform an activity, and in and of themselves have no other meaning. The higher the score, the greater the willingness to perform that activity. Results show that the greatest willingness is for making and following a financial plan; people are least willing to move to a cheaper neighborhood. Importantly, these scores for most and least preferred activity were consistent across all demographic cohorts. Also, looking at all the results, respondents were willing to perform the activity that required the least amount of personal commitment or difficulty--that is, the path of least resistance.

Activity to Improve Financial Wellness	Willingness to Perform Each Activity (Score)
<b>High Preference:</b>	
Make and follow a financial plan	32
<b>Mid-Level Preference:</b>	
Cut up your credit cards/don't use debt	18
Bring your lunch to work	17
Buy store brands	14
<b>Low Preference:</b>	
Buy a cheaper car	7
Get a smaller living area	6
Move to a cheaper neighborhood	6

## CONCLUSIONS

The RRC's analysis reveals many hard truths about financial wellness. There are well-proven paths to financial wellness (e.g., savings, home ownership, manageable debt, etc.) but accessibility to those paths is not equal. Moreover, building financial resiliency is not simply a function of education; it is also a function of changing behavior. What our trade-off analysis reveals is that the behavioral changes people are willing to make require the least tangible effort. Despite these challenges, the employer-based retirement system provides both know-how and mechanisms to affect financial wellness. Behavioral finance-inspired nudges have shown what is possible through "libertarian paternalism;" aka, the power of defaults, where the individual is always free to opt out of the default. Moreover, the use of incentives to shape behavior has proven to be a powerful tool to similarly influence behavior. Specific actions that employers can take, or that their consultants/advisors can encourage, include:

- Adopting plan design features (e.g., auto enrollment, auto escalation, matching formulas, vesting, employer contributions, etc.) that both nudge and incentivize plan participation and savings.
- Offering programs that help employees set, monitor and prioritize their financial goals by:
  - o Targeting communications to audiences to take specific actions, such as starting an emergency savings fund, increasing retirement savings or paying down consumer debt.
  - o Implementing automated services that build financial resiliency into employee benefit offers (e.g., emergency savings, consumer-debt management, student loan repayment assistance, financing and transactional processing, etc.).
  - o Offering assessment and measurement tools that reinforce healthy behaviors, highlight the long-term benefits of healthy financial actions taken today and the longer-term benefits of financial wellness.
- Measuring the efficacy of the programs implemented and the outcomes achieved to drive future improvement and planning.

The true cost of one's retirement is often unknown, as it is dependent on how long one will live. Thus, success hinges on one's ability to balance current financial need with future need. For much of our adult lives, retirement is far off, until it isn't. As we have shown, the barriers to financial wellness are both structural and behavioral. The preceding is offered in the hope that it is helpful to those who seek to better understand both the challenges and potential solutions.

### ABOUT THE DCIIA RRC

DCIIA's Retirement Research Center conducts rigorous, industry-informed research that is grounded in a practical approach focused on actionable insights. We adhere to a disciplined research methodology, governance and validation process. Our goal is to serve the industry as a reliable, unbiased, and authoritative research resource supporting improved retirement security—be it through plan design, institutional practices, investment solutions, or behavioral interventions. To learn more, visit: [www.dciia.org/page/RRCHome](http://www.dciia.org/page/RRCHome).

### ABOUT DCIIA

Founded in 2010, the Defined Contribution Institutional Investment Association (DCIIA) is a non-profit association dedicated to enhancing the retirement security of America's workers. To do this, DCIIA fosters a dialogue among the leaders of the defined contribution community who are passionate about improving defined contribution outcomes. DCIIA's diverse group of members include investment managers, consultants and advisors, law firms, record keepers, insurance companies, plan sponsors and other thought leaders who are collectively committed to the best interests of plan participants. For more information, visit: [www.dciia.org](http://www.dciia.org).

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