

The Link between Financial Self-Awareness – A Form of Implementation Intention – and Later Life Financial Well-being

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Financial education programs have been developed to promote financial literacy in the U.S. in response to the shifting responsibility for retirement security from employers to workers. However, there is limited evidence that widely used measures of financial literacy, which have measured low levels of financial literacy and justified these programs, actually predict specific financial outcomes (Fernandes, Lynch, & Netemeyer, 2014). This study provides empirical evidence that financial self-awareness, a new perspective of financial capability, is predictive of retirement well-being as measured by wealth outcomes.

I develop a measure of “financial self-awareness,” that captures an important aspect of financial literacy that is not represented in other definitions of financial “literacy.” It represents the general knowledge and mindset associated with management of financial life. Implementation intention (Gollwitzer, 1999) is the underpinning theoretical framework, which is a simple if-then plan that links “situational cues” with “behavioral responses.” It is a mindset that triggers automaticity from goal intention to goal achievement. Financial self-awareness can be viewed as a form of “implementation intention,” that prompts individuals to link situational cues (i.e., warning signs of overspending, opportunities to increase wealth) with responses that are effective for attaining desired financial outcomes. Measured by the percentage of asset categories for which respondents are able to provide values, financial self-awareness captures the respondents’ level of awareness of their current financial situation, the degree to which they monitor and are alert to their financial assets. It is hypothesized that guarded with financial self-awareness, individuals can detect/correct problems early, seize opportunities when available, and ultimately achieve the long-term goal of wealth accumulation.

Data are from the Wisconsin Longitudinal Study, a panel study of individuals who graduated from high school in 1957 and were interviewed five times subsequently, including in 2005 when all were approaching or already in retirement. I examine the link between being financial self-aware in earlier life (1992/1993 data wave) and wealth accumulation in late life (2003/2005 data wave) using quantile regression models, controlling for other factors that have been found to have effects on wealth and that might bias the influence of financial self-awareness on wealth.

Results validate that financial self-awareness is a distinct measure, not a proxy for personality or cognitive abilities. Individuals who are more “financially self-aware,” i.e. having a clear sense of their financial assets situation and paying attention to it, accumulate higher levels of wealth over their lifetimes, including in late life. Educating individuals about the importance of awareness of their financial conditions and how to monitor asset values, should be an important component of financial education. Financial self-awareness is a mindset that should be formed early in life, a mindset that would benefit individuals throughout their working lives, extending into their retirement years.

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References

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