A Measure for Personal Financial Responsibility

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Individual responsibility for one's personal financial health is a very ambiguous statement. However, despite the ambiguity, statements surrounding individual financial responsibility can be found in multiple empirical studies (Anderson & Card, 2015; Lusardi, 2011; Szmigin & O'Loughlin, 2010; Xiao, Ford & Kim, 2011). Additionally, given the large body of literature on consumer behavior, there is little known about what is meant by financial responsibility and even more importantly, how financial responsibility relates to financial fragility.

This research focuses on clarifying the concept of personal financial responsibility so to create a valid and reliable composite measure in order to identify levels of personal financial responsibility. To this end, the process first considered what is meant by responsibility. Responsibility alone has been described as having three parts: (a) a moral agent; (b) responsibilities viewed as obligations; and (c) the understanding of being held responsible for them (Snelling, 2012). When considering the overall complexities of financial behaviors and the three part definition of responsibility, the need to clearly define and understand financial responsibility becomes evident.

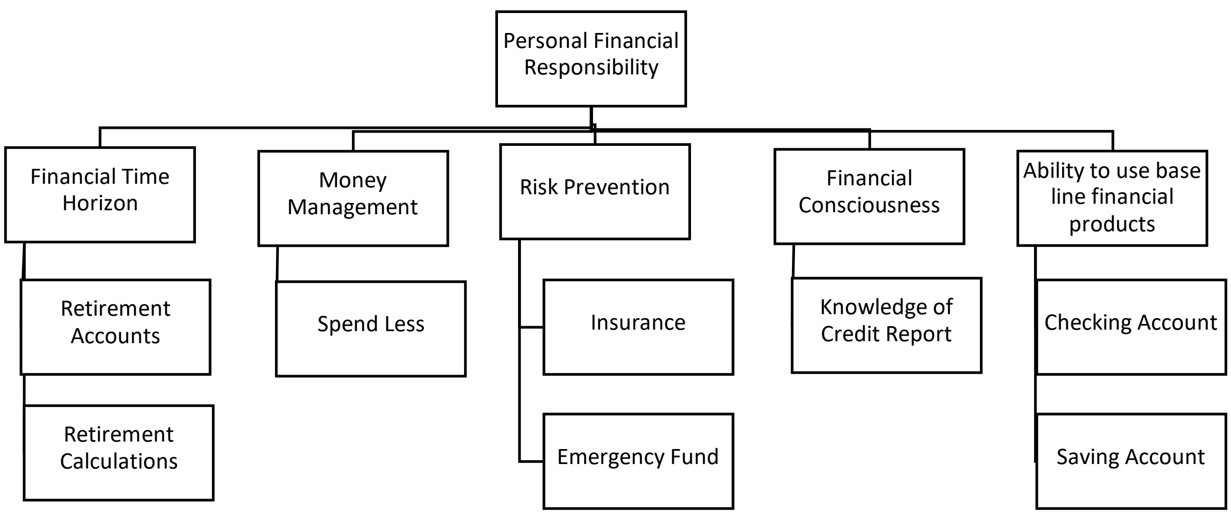
This study took the following multi-step approach to investigating personal financial responsibility: (a) identify categories and questions that are basic to responsible financial behaviors (b) create a personal financial responsibility model that can be operationalized and measured as personal financial responsibility scale. The study utilized data from the 2009 FINRA National Financial Capability Study (NFCS) and identified five financial categories to create the composite measure for personal financial responsibility scale; (a) financial time horizon, (b) money management, (c) risk prevention, (d) financial awareness, and (e) ability to use baseline financial products. The FINRA Financial Capability Survey asked multiple questions relating financial knowledge, financial capability, and financial responsibility. For the purpose of this study, twelve questions relating to financial responsibility were identified. The twelve questions representing the five financial responsibility categories are presented in the following table:

Table 1. Measurement for Personal Financial Responsibility

Variables	Measurement	
Financial Time Horizon	Have you ever tried to figure out how much you need to save for retirement?	1 if yes; otherwise 0
	Do you or your spouse/partner have any retirement plans through a current or previous employer?	1 if yes; otherwise 0
	Do you or your spouse/partner regularly contribute to a retirement account like a 401K or IRA?	1 if yes; otherwise 0
Money Management	Over the past year, would you say your households spending was less than, more than, or about equal to your income? Please do not include the purchase of a new house or car, or other big investments you may have made?	1 if yes; otherwise 0
Risk Prevention	Are you covered by health insurance?	1 if yes; otherwise 0
	Do you have homeowner's or renter's insurance?	1 if yes; otherwise 0

	Do you have a life insurance policy?	1 if yes; otherwise 0
	Have you set aside emergency or rainy day funds that would cover your expenses for 3 months, in case of sickness, job loss, economic downturn, or other emergencies?	1 if yes; otherwise 0
Financial Awareness	In the past 12 months, have you obtained a copy of your credit report?	1 if yes; otherwise 0
	In the past 12 months, have you checked your credit score?	1 if yes; otherwise 0
Ownership of base-line financial products	Do you/ Does your household have a checking account?	1 if yes; otherwise 0
	Do you/ Does your household have a savings account, money market account, or CDs?	1 if yes; otherwise 0

Figure 1 Empirical Model for Personal Financial Responsibility



To estimate the reliability for internal consistency a Cronbach's alpha score was measured yielding a result of 0.74, indicating an acceptable degree to which the model measured a single unidimensional latent construct.

This research is ongoing but initial results support concerns noted in previous research regarding consumers' financial well-being. Based on the preliminary findings, this study provides evidence indicating that respondents identified as having lower personal financial responsibility scores are more financially fragile; therefore, this scale could also be used as a measure for financial fragility. Additionally, this research supports the need to increase financial education but more specifically, education developed to those "at risk" or "financially fragile" consumers. More specifically, additional research is needed to identify whether "at risk" consumers identified as having lower personal financial responsibility scores are also at risk for suffering long term financial consequences associated with negative financial behaviors i.e., foreclosure, bankruptcy, repossessions, and negative credit history.

References

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