



Examining the Difference in Importance of Financial Knowledge and Skills in Overall Financial Well-Being

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Introduction

- The relationship between financial literacy and financial well-being is well-established, however, there is limited literature looking at the components of financial literacy, financial knowledge and financial skills, separately. Zhang, Y., & Chatterjee, S. (2023).
- Financial knowledge is defined as the mastery of financial definitions, terms, and concepts whereas financial skills is defined as whether an individual can make decisions using that knowledge. Lusardi, A., & Streeter, J. L. (2023)
- Generally, possession of a higher level of education is associated with higher levels of financial knowledge and skills and may affect the association between financial skills and knowledge and financial well-being. Lusardi, A. (2019)

Research Questions

Is the possession of financial knowledge or financial skills more important to the contribution of overall financial well-being? Do these relationships still hold after controlling for educational degree, gender, and race/ethnicity?

Results

- **Pearson Correlation Test** shows that the correlation coefficient between the financial skill score and the financial well-being score was 0.49 ($t=45.51$, $p<0.001$) which is **slightly higher** than the correlation coefficient between the financial knowledge score and the financial well-being score which was 0.33 ($t=28$, $p<0.001$).
- **Multiple linear regression plots** show that both financial knowledge and financial skills are still **positively and significantly** associated with financial well-being after controlling for education level.
- In Figure 1, for each additional point in financial knowledge, the financial well-being score is expected to increase by 4.73 points on average when holding education constant ($\beta=4.73$, $p<0.001$).
- In Figure 2, for each additional point in financial skill, the financial well-being score is expected to increase by 0.52 points on average when holding education constant ($\beta=0.52$, $p<0.001$).
- Both figures show that education level is a covariate with financial skills and knowledge and financial well-being.
- For each additional point in financial knowledge, the financial well-being score is expected to increase by 5.73 points on average when holding gender constant ($\beta=5.73$, $p<0.001$) and by 5.42 points on average when holding race/ethnicity constant ($\beta=5.42$, $p<0.001$).
- For each additional point in financial skill, the financial well-being score is expected to increase by 0.55 points on average when holding gender constant ($\beta=0.55$, $p<0.001$) and by 0.55 points on average when holding race/ethnicity constant ($\beta=0.55$, $p<0.001$).

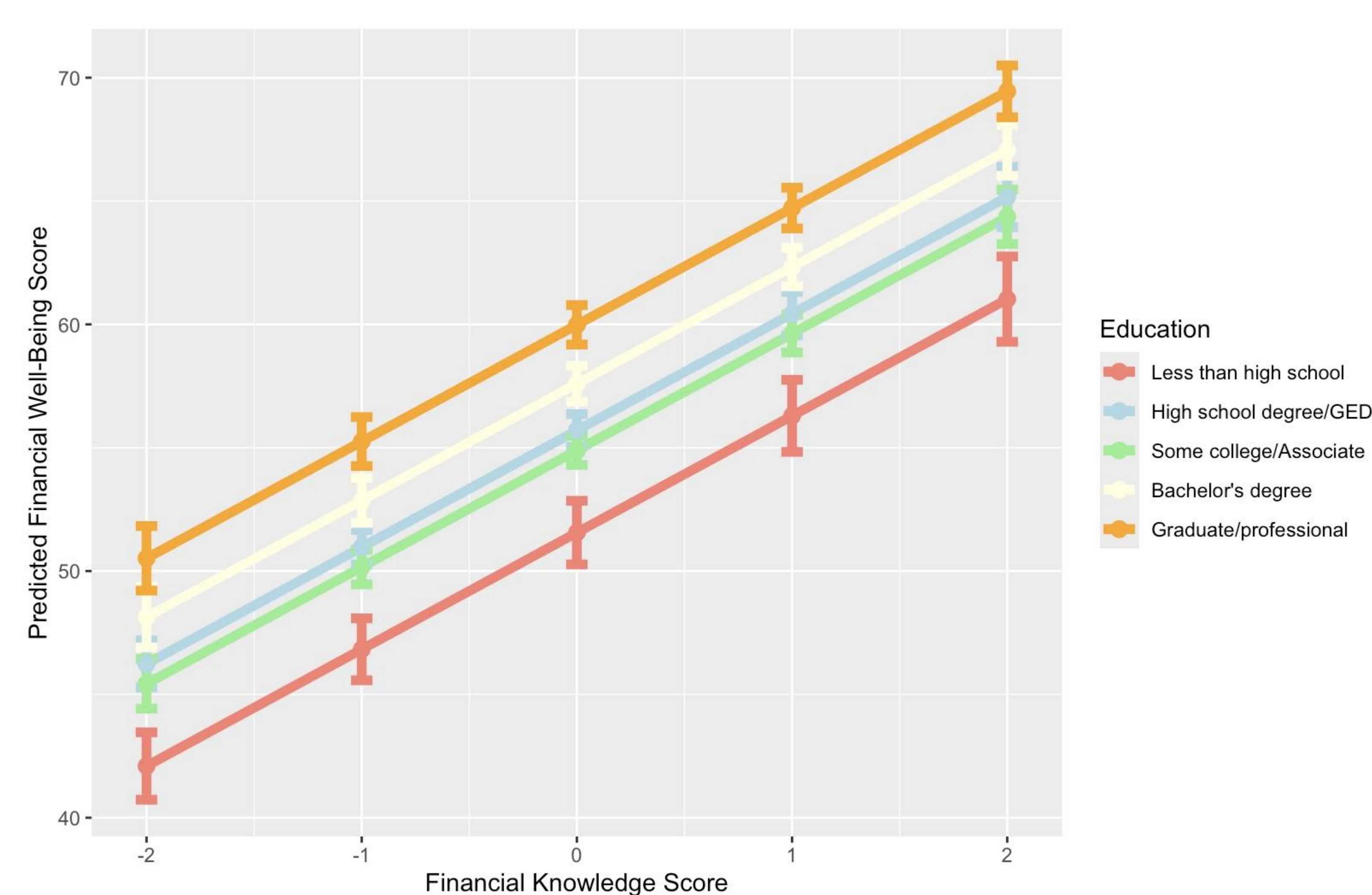


Figure 1: Predicted Financial Well-being by Financial Knowledge Controlling for Education Level

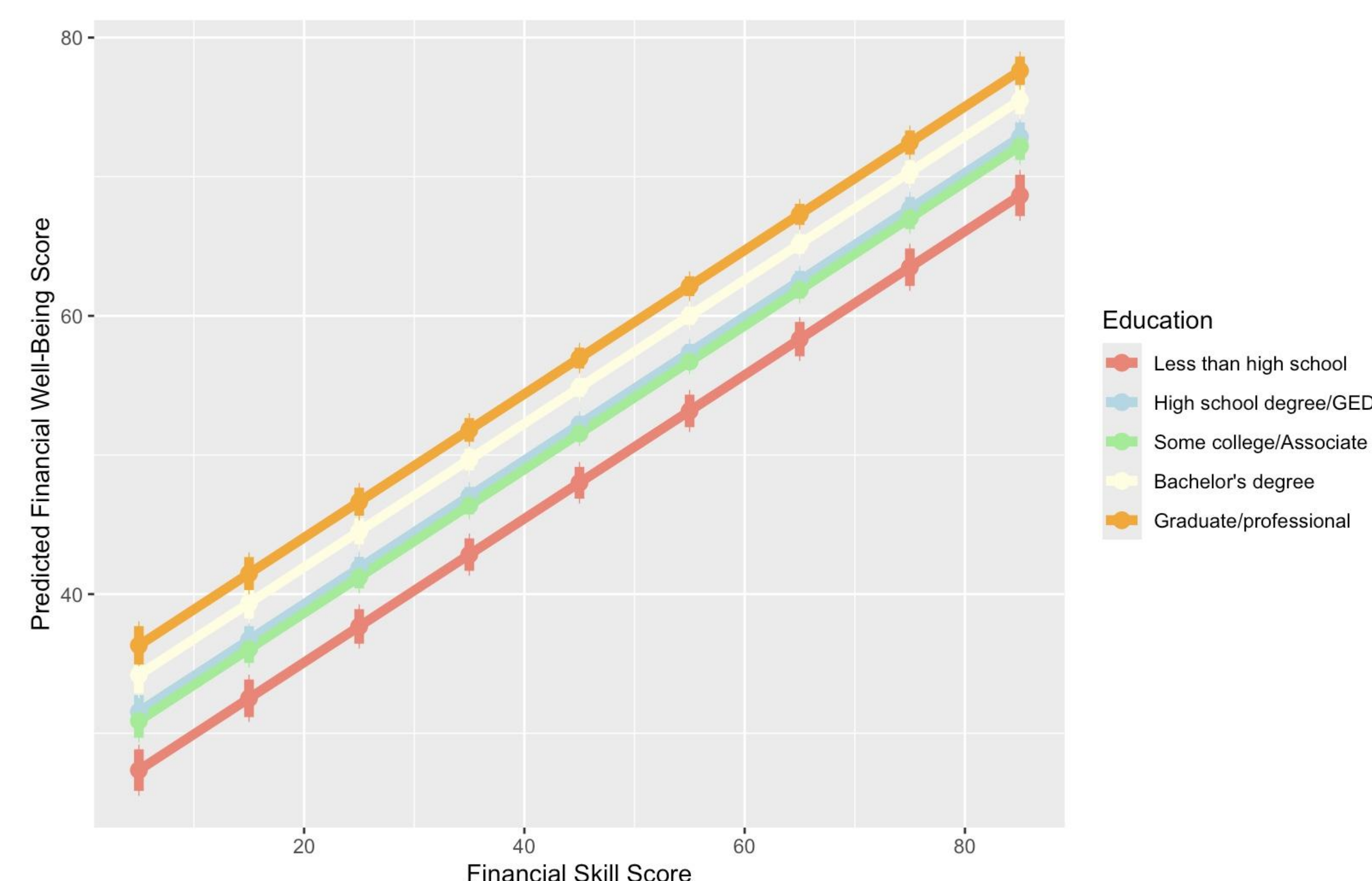


Figure 2: Predicted Financial Well-being by Financial Skill Controlling for Education Level

Methods

Sample

- The sample is composed of the noninstitutionalized adult aged 18 and over population in the U.S. ($n=6,394$) who participated in the (CFPB) National Financial Well-Being Survey published in 2017.
- The dataset contains collected data from the National Financial Well-Being Survey, data on members of the GfK KnowledgePanel, and the poverty levels of the counties of residences in which the respondents reside.

Measures

- **Financial Knowledge Score:** The Knoll and Houts financial knowledge scale score ranges from -2 to 1 based on responses to 9 questions.
- **Financial Skill Score:** score ranges from 0 to 100 based on responses to 10 questions related to an individual's self-perceived financial skills.
- **Financial Well-Being Score:** score ranges from 14 to 95 based on responses to 10 questions related to financial stability.
- **Education level:** responses are measured on a scale ranging from (1) Less than High School, (2) High school degree/GED, (3) Some college/Associate, (4) Bachelor's degree, (5) Graduate/professional degree.
- **Race/Ethnicity:** responses are measured on a scale ranging from (1) White, Non-Hispanic, (2) Black, Non-Hispanic, (3) Other, Non-Hispanic, (4) Hispanic
- **Gender:** (1) Male and (2) Female

Discussion

- Financial skills have a stronger correlation with financial well-being ($r = 0.49$) than financial knowledge ($r = 0.33$), indicating that financial well-being may be more dependent on one's capacity to apply knowledge in decision-making.
- Gender is neither a covariate or confounding variable.
- In comparing the four race/ethnic groups defined in this study, on average, other ethnic groups have lower financial well-being scores than White, Non-Hispanic individuals.
- Generally, individuals with higher education levels tend to have both higher financial skills and knowledge and well-being scores, however this trend is not as resolute due to individuals with a high school degree/GED having higher financial well-being scores than those with some college/Associate's degree.
- Programs aimed to improve financial well-being would benefit from focusing on both financial knowledge and skills, however, due to financial skills having a stronger correlation with financial well-being, prioritizing skill-building could be a greater focus.

References

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- Zhang, Y., & Chatterjee, S. (2023). Financial Well-Being in the United States: The Roles of Financial Literacy and Financial Stress. *Sustainability*, 15(5), 4505. <https://doi.org/10.3390/su15054505>
- Lusardi, A. Financial literacy and the need for financial education: evidence and implications. *Swiss J Economics Statistics* 155, 1 (2019). <https://doi.org/10.1186/s41937-019-0027-5>