Determinants of Later-Life Financial Self-Awareness – The Role of Personality among Other Early-Life Factors

Yung-ting Su, Ph.D., University of Wisconsin-Madison[1]

There has been growing concern about the level of the financial literacy of the U.S. population, in part due to the growing responsibility placed on individuals for retirement planning. While there may be general consensus that increased understanding of financial transaction may be beneficial, it remains unclear what types of financial knowledge are most vital to good financial outcomes, and more importantly, whether greater knowledge makes a difference to later life financial well-being.

This study introduces a new concept – financial self-awareness – that captures important aspects of financial literacy that are not captured in literacy measures most prevalent in the literature. Financial self-awareness is derived from questions about individuals' knowledge of their own financial assets, and is intended to represent a mindset that reflects the degree to which individuals monitor and are alert to their financial situation. The objective of this study is to validate financial self-awareness as a supplementary measure to current financial literacy measures. Modified human capital theory posits that psychological human capital (e.g. personality) has comparable or even larger effects on economic outcomes, comparing to cognitive human capital (Goldsmith 1997; Heckman, Stixrud, & Urzua 2006). Inspired by modified human capital theory, this study examines the links between psychological human capital and later-life financial self-awareness.

Using data from the Wisconsin Longitudinal Study (WLS), a sample of Wisconsin high school graduates from the class of 1957, I examine the role of Big Five personality traits and Ryff scale psychological characteristics in financial self-awareness, as direct effects or as mediators in the relationship between early-life cognitive factors and financial self-awareness. Results of the OLS and logit models show that personality traits and psychological orientations explain part of the variations in the level of financial self-awareness, suggesting financial self-awareness is a distinct attribute, not merely a proxy for personality or cognitive abilities. Psychological human capital such as neuroticism and personal growth not only independently relate to later-life financial self-awareness, but also mediate the relationship between early-life cognitive human capital and later-life financial self-awareness for individuals with college degrees. The level of neuroticism is negatively related to the probability of knowing private pension account values, while personal growth is positively related to the awareness measure. For individuals without college degrees, the level of openness to experience is positively associated with the probability of knowing private pension account values while positive relations with others is negatively associated with later-life financial self-awareness.

This study contributes to the literature for validating financial self-awareness as an important and distinct measure from existing financial literacy measures. The links between early-life cognitive measures and psychological characteristics and later-life financial awareness imply the importance of early-life factors to nurture general skills to help prepare consumers effectively manage their financial lives. Providing better-targeted interventions promoting financial self-awareness would be expected to improve financial well-being in later life.

[1] Ph.D. Independent researcher. E-mail: yungtingsu@gmail.com.

References

Goldsmith, A. H., Veum, J. R., & Darity, W. (1997). The impact of psychological and human capital on wages. *Economic Inquiry, 35*(4), 815-829.

Heckman, J. J., Stixrud, J., & Urzua, S. (2006). The effects of cognitive and noncognitive abilities on labor market outcomes and social behavior. [Proceedings Paper]. *Journal of Labor Economics, 24*(3), 411-482.

Acknowledgements

This research uses data from the Wisconsin Longitudinal Study (WLS) of the University of Wisconsin-Madison. Since 1991, the WLS has been supported principally by the National Institute on Aging (AG-9775 AG-21079 and AG-033285), with additional support from the Vilas Estate Trust, the National Science Foundation, the Spencer Foundation, and the Graduate School of the University of Wisconsin-Madison. Since 1992, data have been collected by the University of Wisconsin Survey Center. A public use file of data from the Wisconsin Longitudinal Study is available from the Wisconsin Longitudinal Study, University of Wisconsin-Madison, 1180 Observatory Drive, Madison, Wisconsin 53706 and at http://www.ssc.wisc.edu/wlsresearch/data/. The opinions expressed herein are those of the author.

