

A Look at How Subjective Perceptions of Financial Wellness Compare to Objective Measures for Older Americans

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Many of those approaching retirement are likely evaluating their preparedness for retirement. One way to measure how prepared individuals are is to look at objective measures such as financial ratios. Another important measure is an individual's subjective view of their financial wellness. In other words, how do they feel about their preparation, or lack of preparation, for retirement? The goal of this research is to determine if individual's subjective view of their personal finances aligns with various objective measures. If they do align, how could practitioners help those who have poor subjective views and objective measures? If they don't align, how could practitioners' help their clients deal with this disconnect?

Expected utility theory suggests that individuals seek to maximize their utility over their lifetime. This does not necessarily imply maximizing wealth, rather maximizing happiness. Happiness is very subjective and may not translate well to objective measures. Work has been done to determine the impact of both objective and subjective measures on financial wellness (Baek & DeVaney, 2004). The next step is to see if subjective views tend to align with objective measures of financial wellness.

This study will use the 2012 cohort of the Health and Retirement Survey. The dependent variable measures individual's perceptions of their financial well-being. The explanatory variables include financial ratios and various demographic variables.

This study is still a work in progress; however, the hypothesis is that subjective views will not consistently align with objective measures of financial wellness. It will be interesting to find if there are certain financial ratios that are better aligned with subjective perceptions of financial wellness. This could help practitioners focus on their clients who need help with personal expectations and objective measures.

References

Baek, E., & DeVaney, S. A. (2004). Assessing the baby boomers' financial wellness using financial ratios and a subjective measure. *Family and Consumer Sciences Research Journal*, 32(4), 321-348.

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