

Confidence in Financial Literacy: A Key Factor in Retirement Planning and Financial Satisfaction Among Asian Americans

Mengya Wang, Human Development & Family Science, Oklahoma State University
Yi Liu, College of Business, St. John Fisher University

Background and Purpose

Financial confidence plays a critical role in shaping individuals' financial behaviors and well-being, particularly in areas such as retirement planning and financial satisfaction. Among Asian Americans, a rapidly growing and diverse demographic in the United States (Pew Research Center, 2023), this dimension of financial psychology remains understudied. While financial literacy and confidence have been extensively studied (Dare et al., 2020), less attention has been paid to how individuals' confidence in their financial knowledge, whether overestimated or underestimated, affects their financial behavior and satisfaction. This study addresses that gap by examining how confidence in financial literacy, distinguished as overconfidence and underconfidence, relates to retirement planning behaviors and overall financial satisfaction among Asian Americans.

Grounded in Social Cognitive Theory (SCT), which emphasizes the role of self-beliefs in motivating and sustaining behavior (Bandura, 1977), the study investigates the mechanisms through which financial confidence affects both behavior (retirement planning) and emotional outcomes (financial satisfaction).

Method

This study uses data from the 2021 National Financial Capability Study (NFCS) AAPI Oversample to examine the relationship between financial confidence, retirement planning behavior, and financial satisfaction among Asian Americans.

Financial satisfaction was measured using a single item asking respondents to rate their overall satisfaction with their personal financial condition on a scale from 1 (Not at all satisfied) to 10 (Extremely satisfied).

Retirement planning behavior was captured using three binary indicators: (1) whether the respondent had tried to calculate their retirement savings needs, (2) whether they owned employer-sponsored retirement accounts (e.g., 401(k), pension), and (3) whether they owned non-employer-sponsored retirement accounts (e.g., IRA, Keogh).

Financial confidence was operationalized using both objective and subjective measures of financial literacy. Objective literacy was based on the number of correct answers to six financial knowledge questions. Subjective literacy was based on self-assessed financial knowledge rated on a 1–7 scale. Following Lind (2020), two binary variables were created: overconfidence (high subjective, low objective literacy) and underconfidence (low subjective, high objective literacy).

Result

The findings reveal a clear pattern: underconfident individuals were significantly less likely to engage in retirement planning and reported lower levels of financial satisfaction. These results align with SCT's assertion that low self-efficacy undermines motivation and leads to avoidance of complex, long-term decisions such as retirement planning.

Among underconfident Asian Americans, this behavioral hesitation translated into reduced engagement in critical retirement planning activities and a lower sense of financial well-being. In contrast, overconfident individuals did not demonstrate higher levels of retirement planning. Despite their self-perceived financial competence, they were no more likely to engage in proactive planning behaviors. Nevertheless, they reported significantly higher financial satisfaction. This suggests that financial confidence, even when unwarranted, can elevate perceived well-being by providing a sense of control and optimism, irrespective of actual behavior.

Mediation analysis confirmed that underconfidence affects financial satisfaction indirectly through reduced retirement planning behavior. This mediation pathway underscores the behavioral mechanism through which confidence shapes emotional outcomes: individuals who lack belief in their financial abilities are less likely to take action, which ultimately diminishes their satisfaction.

Moreover, the study also found that ownership of non-employer-sponsored retirement accounts, such as IRAs, was strongly associated with financial satisfaction. These types of accounts generally require greater personal initiative, suggesting that individuals who take a more active role in managing their retirement may derive greater confidence and satisfaction from doing so.

Implication

The implications of these findings are particularly relevant for financial professionals. First, underconfident clients may need more than financial knowledge, they require interventions that also build confidence and reduce psychological barriers to action. This includes providing clear, step-by-step guidance, simplifying complex tasks, and offering encouragement and regular feedback. On the other hand, overconfident individuals may require a different approach. While their confidence may foster satisfaction, it may also lead to complacency or a false sense of security. Financial professionals should seek to align these individuals' perceptions with reality, using objective assessments to identify potential gaps in their planning and encouraging more robust financial strategies, including diversification and engagement with non-employer-sponsored retirement vehicles.

Cultural context is an important consideration throughout. Many Asian Americans prioritize financial stability, family obligations, and intergenerational support. These values may shape preferences for certain types of financial products or discourage seeking professional financial advice. For example, reliance on employer-sponsored plans may be rooted in a desire for perceived stability, while hesitation to explore other financial products may stem from risk aversion or deference to traditional family-based financial planning. Culturally responsive strategies, those that acknowledge family values and offer respectful, relevant guidance, may be more effective in fostering engagement and improving outcomes. Additionally, education programs that integrate financial literacy with confidence-building elements could be especially valuable for this population. Such programs can help clients recognize how their attitudes toward money affect their decision-making and satisfaction, while also addressing cultural barriers that may prevent them from planning effectively for the future.

Limitation

This study does have limitations. Its cross-sectional design prevents the establishment of causal relationships between financial confidence, behavior, and satisfaction. Longitudinal research is needed to examine how financial attitudes and behaviors evolve over time. Furthermore, although this analysis focused on AAPI individuals, it did not compare them with other racial or ethnic groups, nor did it explore differences within the AAPI community itself. Future research should investigate subgroup differences, such as those by ethnicity, immigration background, or generation status, as well as gender-specific dynamics, given cultural expectations and gender roles within many Asian communities. Finally, subjective measures may be influenced by cultural norms around modesty and privacy, which could lead to underreporting or overreporting. Future studies may benefit from incorporating culturally sensitive measures or mixed-methods approaches to better capture these nuances.

Reference

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Table

Table 1. Logistic Regression Predicting Retirement Planning Behaviors

	Model 1 Calculation for RS			Model 2 Employer RA			Model 3 Non-Employer RA		
	β	SE	OR	β	SE	OR	β	SE	OR
Underconfidence	-0.37*	.17	0.65	-0.24*	.17	0.77	-0.28	.18	0.75
Overconfidence	0.10	.11	1.12	-0.08	.13	0.86	-0.39***	.12	0.64
Age	-0.04	.04	0.95	-0.01	.04	0.97	0.11*	.04	1.12
Female	-0.02	.10	0.98	0.12	.11	1.11	0.11	.10	1.07
Marital status (reference: married)									
Living with partner	-0.32	.24	0.72	-0.22	.25	0.87	0.18	.26	1.22
Single	-0.18	.15	0.85	-0.59***	.12	0.58	0.08	.12	1.10
Income (reference: Less than \$25,000)									
\$25,000-\$35,000	0.76	.23	1.14	0.78**	.23	2.02	0.22	.27	1.10
\$35,000-\$50,000	0.45*	.20	1.60	0.81***	.21	2.37	0.53*	.24	1.63
\$50,000-\$75,000	0.73***	.18	2.20	0.96***	.19	2.75	0.91***	.22	2.37
\$75,000-\$100,000	1.07***	.19	3.04	1.68***	.21	5.78	1.26***	.23	3.33
\$100,000-\$150,000	1.26***	.20	3.72	1.88***	.22	6.94	1.38***	.23	3.74
\$150,000+	1.35***	.22	4.07	1.88***	.25	6.92	1.69***	.25	5.04
Education (reference: High school and less)									
Some college	-0.24	.19	0.81	0.28	.20	1.23	0.36	.23	1.43
College	0.08	.16	0.77	0.43*	.17	1.43	0.64	.20	1.91
Post graduate degree	0.30*	.19	0.60	0.53*	.12	1.57	0.91	.22	2.50
Employment status (reference: employed)									
Part-time	-0.23	.17	0.85	-0.64**	.19	0.58	0.03	.19	1.07
Homemaker	-0.28	.18	0.77	-0.52**	.20	0.59	-0.26	.20	0.78
Full-time students	-0.55	.26	0.60	-1.67***	.32	0.18	-1.06*	.40	0.35
Permanently sick	-0.70	.51	0.79	-2.06*	.60	0.28	-1.79	1.08	0.15
Unemployed	-0.32	.21	0.77	-0.57**	.22	0.55	-0.45	.26	0.63
Retired	0.23	.16	1.25	-0.45*	.18	0.67	0.48**	.17	1.62
Homeowner	0.44***	.11	1.61	0.86***	.12	2.35	0.97***	.12	2.64

Note: * $p < .05$, ** $p < .01$, *** $p < .001$; Abbreviations: RS, Retirement savings; RA, Retirement account.

Table 2. OLS Regression Predicting Financial Satisfaction

	β	SE	t
Retirement planning behaviors			
Calculation for RS	0.51***	.11	4.51
Employer RA	0.07	.12	0.54
Non-Employer RA	0.77***	.12	6.40
Underconfidence	-0.79***	.18	-4.39
Overconfidence	0.71***	.12	5.82

Age	-0.04***	.04	-0.84
Female	-0.17	.11	-1.62
Marital status (<i>reference: married</i>)			
Living with partner	-0.33	.25	-1.32
Single	-0.01	.12	-0.13
Income (<i>reference: Less than \$25,000</i>)			
\$25,000-\$35,000	0.43	.24	1.78
\$35,000-\$50,000	0.22	.22	1.05
\$50,000-\$75,000	0.40*	.20	1.98
\$75,000-\$100,000	0.50*	.21	2.33
\$100,000-\$150,000	0.86***	.21	3.94
More than -\$150,000	1.21***	.23	5.09
Education (<i>reference: High school and less</i>)			
Some college	-0.67**	.21	-3.13
College	-0.21	.18	-1.14
Post graduate degree	0.04	.20	0.29
Employment status (<i>reference: employed</i>)			
Part-time	0.14	.19	0.76
Homemaker	0.09	.21	0.42
Full-time students	0.36	.27	1.29
Permanently sick	-0.68	.52	-1.32
Unemployed	-0.63**	.23	-2.72
Retired	0.74**	.17	4.31
Homeowner	0.65***	.12	5.12
R-squared		0.25	

Note: * $p < .05$, ** $p < .01$, *** $p < .001$

Table 3. Indirect Effects on Financial Satisfaction and Retirement Planning behaviors

Variable	B	SE	t	
Direct effects				
Underconfidence → RPB	-0.05*	.02	-2.22	
Overconfidence → RPB	-0.02	.02	-0.91	
Underconfidence → FS	-0.75***	.20	-4.61	
Overconfidence → FS	0.78***	.13	5.77	
RPB → FS	4.16***	.056	7.64	
	B	SE	Bootstrapping BC 95% CI	
			Lower	Higher
Indirect effects				
Underconfidence → RPB → FS	-.20*	.10	-.37	-.03
Overconfidence → RPB → FS	-.06	.07	-.19	.05

Note. * $p < .05$, ** $p < .01$, *** $p < .001$. Number of bootstrap samples: 5,000, Abbreviations: RPB, Retirement planning behaviors; FS, Financial satisfaction; B: unstandardized estimate; SE: standard error; CI: confidence interval.