Perceived and Actual Financial Education and Financial Well-being

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Objectives

This study analyzed the 2021 National Financial Capability Study (NFCS) data set to explore the role of perceived and actual financial education on financial well-being. Using both the direct financial education question and the state of residence variable, we investigated the role of financial education on Financial Well-Being. Based on previous literature, financial literacy (objective and subjective), use of Alternative Financial Services, and various socio-economic factors were included as control variables.

Significance

Financial literacy is critical for individuals at a high school age because it provides them with important information that helps them make confident, informed financial decisions on their way to reaching adulthood. Studies show that confidence in both knowledge and ability are important influence on positive financial behaviors for individuals without a college degree (Henegar & Cude, 2019). During adolescence, individuals begin to encounter complex financial situations that can complicate their lives. For example, some of these individuals begin to acquire credit cards, open bank accounts, and plan for college expenses. By developing financial literacy skills early, young people might avoid common pitfalls, such as debt accumulation or overspending, and, instead, develop habits that promote long-term financial well-being.

High school financial literacy courses also give students the tools they need to create budgets, understand interest rates, evaluate the cost of loans, and begin investing or saving for future expenditures. Research has found that these courses can significantly improve financial literacy in four important areas: subjective financial knowledge, financial behavior, objective financial knowledge, and self-esteem (Filbeck, Pettner, & Zhao, 2020).

In addition, this knowledge and skill can lead to financial well-being because individuals may develop the skills needed to navigate still other increasingly difficult financial challenges, such as paying a mortgage, understanding interest rates, or paying off a car loan. Moreover, financial literacy courses encourage critical thinking, as students learn to think seriously about financial news and their own consumer behavior, leading them to become informed consumers in an increasingly complex economy. Indeed, high school financial education has been found to lead to higher credit scores and reduced rates of credit delinquency (Schmeiser, Collins, & Brown, 2020).

Research has also identified the increasing need for financial education among disadvantaged individuals. For example, Kang (2025) found that financial literacy is a privileged issue for people based on their socio-demographic background, highlighting the importance of interventional approaches. Accordingly, further study in this area is warranted.

Furthermore, financial education enhances monetary capabilities and healthy financial practices. For example, as high school students begin to plan for college or work, they benefit significantly from understanding how to set financial goals and manage their financial resources effectively. This proactive approach not only eases the transition into adulthood but also contributes to a more secure economic future. Financial literacy is as essential as traditional academic subjects because it directly impacts the individual's quality of life by reducing stress, improving decision-making, and opening opportunities for growth. One study demonstrated that implementing financial education mandates in schools "directly and positively related to young adults' financial knowledge and indirectly enhanced financial access, healthy financial practices, and financial wellbeing." The study further found that healthy financial behaviors were closely linked to improved financial wellness (Fan & Zeng, 2025).

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Finally, financially literate individuals are more likely to invest wisely and participate in economic activities that drive innovation and sustainability. They become better problem solvers and can contribute to community initiatives, further enhancing the economic and social fabric of society.

Method

Dataset and Analytic Sample

NFCS reports a nationally representative sample, about 500 respondents from each of the states across the US. Since 2009, the FINRA Investor Education Foundation has been releasing the public-use dataset every three years. For this study, we used the 2021 NFCS dataset, which was collected from approximately 500 adult respondents per state, plus the District of Columbia. The sample size was 27,118 total. The 2021 NFCS had oversampling in California and Oregon, for 1,250 respondents each. For regression analysis, we used the listwise missing method, and the sample size was reduced to 5,077.

Dependent Variables

Financial Well-Being (FWB) is used as a dependent variable. FWB was developed by the Consumer Financial Protection Bureau in 2015, and the abbreviated 5-question version is included in the NFCS. The questions included “Because of my money situation, I feel like I will never have the things I want in life”, “I am just getting by financially”, “I am concerned that the money I have or will save won’t last”, “I have money left over at the end of the month”, and “My finances control my life”. All questions were measured with a 5-point Likert scale, and the scores were converted according to the CFPB guideline, ranging from 19 to 82.

Independent Variables

Our focus was financial education, and the state of residents having a high school financial literacy course mandate as of the time of the data collection (year 2021). Our independent variable included the use of Alternative Financial Services (AFS) products, objective financial literacy, subjective financial literacy, and student loan variables. Use of AFS products is measured as the frequency of use in the past 5 years, including auto title loans, payday loans, advance tax refunds, pawn shops, and rent-to-own. The responses were recorded as never, once, two times, three times, or more than four times.

Objective financial literacy was measured with six questions: mortgage, interest rate, inflation, risk diversification, compound interest, and bond price. The sum of the correct answers across the questions was calculated, ranging from 0 to 6. Subjective financial literacy was measured with the question, “On a scale from 1 to 7, where 1 means very low and 7 means very high, how would you assess your overall financial knowledge? (M4)”.

Student loan variables included whether or not the respondents have student loans of their own (G30_1), concern about paying off student loan debt (G22_2015), and whether they wish they had chosen to go to a less expensive college (G40).

Control variables included age, gender, race, marital status, income, income fluctuation, number of children, parental education, owning a checking account, homeownership, number of credit cards, health insurance, and financial education.

Empirical Specification

$$Financial\ Well - Being = f(financial\ education, residing\ in\ state\ with\ a\ high\ school\ financial\ education\ mandate,\ control\ variables, objective\ financial\ literacy,\ subjective\ financial\ literacy,\ student\ loan\ variables,\ race,\ AFS\ use) \quad (1)$$

Results

The multivariate results show that age, gender, race, homeownership, health insurance, objective financial knowledge, subjective financial knowledge, income, income shock, having one's own loan, AFS use (Payday loan, Pawnshop), and financial education were significantly associated with the financial well-being. Specifically, use of payday loans and pawnshops was associated with a lower level of financial well-being. Having one's own loan was negatively associated with the level of financial well-being. Both objective and subjective financial well-being were positively associated with financial well-being. All other things being equal, owning a home and receiving financial education were associated with a higher financial well-being score. Interestingly, residing in states with high school financial literacy course mandate was not significantly associated with the respondents’ level of financial well-being.

Conclusion

This study contributes to the literature regarding the role of financial education on financial well-being, using a national dataset. From the socio-demographic characteristics, being married and having parents with a higher level of education contributed to the higher level of financial well-being. Consistent with previous literature on financial confidence and self-efficacy, higher subjective financial knowledge was associated with a higher level of financial well-being. Also, in order to improve financial well-being, the student loan payoff concern needs to be addressed in educational interventions or policy efforts. Due to the cross-sectional nature of the dataset, future research exploring longitudinal datasets would be fruitful.

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