

## Frugality and Financial Well-being

Isadora Ferreira De Melo, Utah State University<sup>1</sup>

Yoon Lee, Utah State University<sup>2</sup>

The economic context of each generation informs financial attitudes, which impact financial behavior and outcomes. There exists a gap in the literature regarding how the financial context and economic environment of each generation affect frugal financial attitudes and financial well-being. To explain these patterns of frugality, it is important to understand each cohort and the economic context in which they were brought up (Huang & Silver, 2020). In this study, four theoretical perspectives were utilized to examine the association between frugality and financial well-being across generational cohorts. Life Course Theory emphasizes the influence of historical and social contexts on individual paths of behavior and well-being (Elder, 1998). Generational Cohort Theory claims that formative experiences, such as the Great Depression, the Recession, or Covid 19, during critical life stages create shared financial attitudes (Mannheim, 1952). Prospect Theory describes how individuals perceive financial risks and gains (Kahneman & Tversky, 2013). Finally, Socioemotional Selectivity Theory describes how motivational priorities shift with age (Carstensen, 1995). Based on these frameworks and historical background, we are proposing the following hypotheses: H1) Older generations (Silent, Boomers) will have higher levels of frugal financial attitudes than middle and younger generations (Gen X, Mill, Gen Z); H2) Older generations (Silent, Boomers) will have higher financial well-being than middle generation (Gen X), and younger generations (Mill, Gen Z) will have lower financial well-being than middle generation (Gen X); H3) Individuals with higher frugal financial attitudes will have higher financial well-being compared to those with lower frugal financial attitudes.

This study employed data from the 2021 National Financial Capability Study (NFCS) conducted by the Financial Industry Regulatory Authority Investor Education Foundation (FINRA, 2022). The final sample size used for analyses included 23,176 individuals. The sub-sample consisted of Gen Z (n = 2,205), Millennial (n = 6,372), Gen X (n = 6,249), Baby boomer (n = 7,420), and Silent (n = 930) groups. To measure financial well-being, we employed a subjective measure that represents an individual's perception of their financial situation, covering both perceptions of current financial satisfaction and future security (Xiao & Kim, 2022). We utilized a reduced version of the CFPB's financial well-being scale (CFPB, 2017). In the regression model for the total sample, we included the five generational cohorts and frugal financial attitudes as the key independent variables. As controlling variables, we included socio-economic characteristics (e.g., formal education, gender, marital status, race/ethnicity, employment status, homeownership status, and household income), financial literacy domains (e.g., self-assessed financial knowledge, objective quiz score, and perceived financial capability), and COVID-related financial stressors such as experiencing an income drop and difficulty paying ongoing bills.

The OLS results show that Gen Z reported higher financial well-being than Gen X, whereas Boomers and the Silent Generation all reported significantly higher financial well-being than Gen X after controlling for income, education, homeownership status, financial literacy, and Covid-related stressors. However, there was no significant difference in financial well-being between the Millennial and Gen X groups. The OLS results also show that individuals with more frugal financial attitudes reported higher financial well-being than those with less frugal financial attitudes. Specifically, all three variables (i.e., setting aside emergency funds, spending less than they earned, and lower levels of perceived debt burden) significantly increased financial well-being. There were significant factors affecting financial well-being across the five generations. Additionally, these three frugal attitude variables significantly increased financial well-being for all five sub-groups.

The findings of this study contribute to the gap in the literature by highlighting the significant differences in the associations between generational cohorts, frugal financial attitudes, and perceived financial well-being. Based on the findings of this study, frugality is a significant determinant of perceived financial well-being. Older generations seem to hold more frugal financial attitudes, which benefits their financial well-being. Younger generations should be aided in developing frugal habits and attitudes. This study contributes to existing literature by integrating different theoretical perspectives, including Life

---

<sup>1</sup> Isadora Ferreira De Melo (isadora.ferreirademelo@usu.edu), Doctoral Student, Human Development and Family Studies

<sup>2</sup> Yoon Lee (yoon.lee@usu.edu), Professor, Human Development and Family Studies

Course Theory, Generational Cohort Theory, Prospect Theory, and Socioemotional Selective Theory. These theories provided context that informed this study's hypotheses, which were mostly supported. The findings of this study can contribute to a more comprehensive understanding of how financial well-being develops and diverges across the life span. It is important for future researchers to integrate theories of aging, behavioral economics, and social context to capture the dynamic interplay between generational identity, financial behaviors, and subjective financial well-being. Additionally, longitudinal methods can greatly add to this understanding in the future.

The findings of this study offer several implications for consumer policymakers and financial practitioners and can inform parents, educators, and younger individuals in pursuing better financial outcomes for themselves. First, policymakers should recognize the disproportionate challenges faced by younger cohorts in achieving financial stability, such as lowering student loan debt and improving housing affordability. For example, policies that reduce student loan debt pressures or provide access to affordable housing could enhance financial well-being for Gen Z and Millennials. Second, it is important for financial practitioners to design targeted financial education programs. For example, within financial education programs, financial literacy initiatives should emphasize the value of "frugality", particularly for those in younger cohorts who engage in less frugal practices. Further, financial education programs that could integrate strategies for building emergency savings, maintaining budgeting skills, and reducing debt burdens could be essential for younger cohorts. Third, financial practitioners and counselors should tailor advice to their clients according to their generational contexts. For example, reinforcing long-standing frugal financial attitudes can maintain financial security in retirement for older cohorts, while focusing on building sustainable frugal financial attitudes early in the life cycle stage is crucial for younger cohorts.

This study concludes that across all cohorts, frugal financial attitudes were positively associated with higher financial well-being. Frugal attitudes positively influence financial well-being across all five generational cohorts. These findings suggest that fostering frugal financial attitudes can serve as protective factors that enhance perceived financial satisfaction and security. Generational cohort differences in financial well-being can be better understood through the integration of historical, economic, and motivational frameworks. While the Silent and Boomer generations demonstrate higher financial well-being due to cumulative assets and stronger frugal practices, younger cohorts face systemic barriers (e.g., the Great Recession, the Covid-19 Pandemic, student loan burden, housing unaffordability) that undermine financial resilience. Nevertheless, across all cohorts, frugality enhances well-being, reinforcing its value as both a behavioral strategy and a theoretical lens for understanding financial security over the life course.

## References

- Carstensen, L. L. (1995). Evidence for a life-span theory of socioemotional selectivity. *Current Directions in Psychological Science*, 4(5), 151–156.
- Consumer Financial Protection Bureau (2015, December 11). *Financial well-being: The goal of financial education*. <https://www.consumerfinance.gov/data-research/research-reports/financial-well-being/>
- Elder, G. H., Jr. (1998). The life course as developmental theory. *Child Development*, 69(1), 1–12.
- Financial Industry Regulatory Authority. (2022). 2021 *National Financial Capability Study* [Data set].
- Huang, C., & Silver, L. (2020, July 8). *U.S. millennials tend to have favorable views of foreign countries and institutions - even as they age*. Pew Research Center. <https://www.pewresearch.org/short-reads/2020/07/08/u-s-millennials-tend-to-have-favorable-views-of-foreign-countries-and-institutions-even-as-they-age>
- Kahneman, D., & Tversky, A. (2013). Prospect theory: An analysis of decision under risk. In L. C. MacLean & W. T. Ziemba (Eds.), *Handbook of the fundamentals of financial decision making: Part I* (pp. 99–127). World Scientific Publishing. [https://doi.org/10.1142/9789814417358\\_0006](https://doi.org/10.1142/9789814417358_0006)
- Mannheim, K. (1952). The Sociological Problems of Generations. In P. Kecskemeti (Ed.), *Essays on the Sociology of Knowledge* (pp. 163–195). Oxford University Press.
- Xiao, J.J., & Kim, K. (2022). The able worry more? Debt delinquency, financial capability, and financial stress. *Journal of Family and Economic Issues*, 43(1), 138–152.