

## The Relationship Between Household Debt and Perceived Financial Well-being

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### Abstract

This study investigated the relationship between household debt and perceived financial well-being. Results using data from the National Longitudinal Survey of Youth (NLSY) from the 2015, 2017, 2019 and 2021 waves show four key findings: a negative relationship between debt and perceived financial well-being, a positive relationship between income and perceived financial well-being, a positive relationship between income and perceived financial well-being among households that have debt compared to those that don't, and lastly and most consequentially, a positive relationship between the debt-to-asset ratio and perceived financial well-being. Using multivariate analysis over four waves of data, findings from this study indicate the significant impact debt can have on the financial well-being of households across America. Additionally, households utilize resources, including income and assets, to manage their debt situation. Therefore, from a consumer impact vantage point, it is critical to assess the subjective nature of financial well-being through the lens of objective financial measures.

**Key words:** Consumer Debt, Financial Strain, Financial Well-being, Cognitive Appraisal, Subjective Well-being

### Introduction

The purpose of this study is to investigate how household debt impacts perceived financial well-being and evaluate the role income and assets may play in dealing with consumer debt. Using data from the National Longitudinal Survey of Youth (NLSY), results from this study indicate that debt negatively impacts financial well-being, and that access to resources, such as income and assets, act as a coping mechanism for handling household debt situations. Access to credit should therefore take into consideration the overall impact of debt on financial well-being, as well as a consumer's ability to cope with debt through expected resource availability.

### Literature Review

Household debt in the United States has reached record levels, climbing to \$18.20 trillion in 2025 with aggregate debt delinquencies increasing from 3.6% to 4.3% of outstanding debt from the last quarter of 2024 to the first quarter of 2025 (Federal Reserve Bank of New York, 2025). While debt is a valuable liquidity and major milestone purchasing resource for consumers, its effect has been linked to negatively impact psychological well-being (Brown et al., 2005), as well as subjective well-being (SWB; Tay et al., 2017) and health outcomes (Dávalos et al., 2012; Grafova, 2011; Sweet, 2021). Additionally, having debt may increase short-term and long-term liabilities, leading to additional financial strain and increased financial stress and worry (Magwegwe et al., 2023).

### Methods

This study uses the National Longitudinal Survey of Youth (NLSY) to look at the relationship between household debt and perceived financial well-being. The NLSY is sponsored by the U.S. Bureau of Labor Statistics and is typically released every year, although some cohorts have had data releases every other year (U.S. Bureau of Labor Statistics, 2023). The original data had a total observation count of 35,936, with 8,984 total respondents over the waves observed, and this research study uses four waves of data from the NLSY97 cohort with survey years of 2015, 2017, 2019, and 2021.

The dependent variable in this study is the question "Which of the following best describes [your/your and your spouse's/your and your partner's] financial condition?" from the National Longitudinal Survey of Youth (NLSY). Key predictors tested included the debt-to-asset ratio and gross income as a control variable. Demographic control variables were also used, including gender, race, marital status,

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race/ethnicity, birth year, education level, and employment status. This research estimated an xtologit model to examine the relationship between objective debt measures and subjective financial well-being.

**Results**

Results from this study indicate that households who report having debt are associated with a higher likelihood of indicating lower subjective financial well-being and a lower likelihood of indicating higher subjective financial well-being. Additionally, having a higher debt-to-asset ratio is associated with a lower likelihood of indicating higher subjective financial well-being, and having a higher debt-to-asset ratio is associated with a higher likelihood of indicating lower subjective financial well-being. For gross income, the opposite relationship was observed, higher gross income is associated with a higher likelihood of indicating higher subjective financial well-being and a lower likelihood of indicating lower subjective financial well-being.

Table 5: Ordered Logit of Financial Well-being

Variable (Reference Group)	Coefficient	Std. err.	z	P>z
Debt-to-Asset	-0.842	0.061	-13.830	0.000
Gross Income	0.170	0.019	8.850	0.000
Has Debt (No Debt)				
Has Debt	-0.252	0.091	-2.780	0.006
Gender (Male)				
Female	-0.478	0.088	-5.420	0.000
Race (Non-Black/Non-Hispanic)				
Black	0.009	0.111	0.080	0.935
Hispanic	0.323	0.113	2.860	0.004
Mixed Race (Non-Hispanic)	-0.251	0.440	-0.570	0.568
Birth Year				
1981	0.256	0.131	1.950	0.051
1982	-0.034	0.141	-0.240	0.810
1983	0.133	0.142	0.930	0.352
1984	-0.083	0.132	-0.630	0.529
Education (Less than HS Diploma)				

HS Diploma or GED	0.901	0.189	4.760	0.000
Associate Degree	1.511	0.229	6.600	0.000
Bachelor's Degree	2.124	0.210	10.090	0.000
Graduate Degree	2.572	0.232	11.080	0.000
Employed (No Employed)				
Employed	0.294	0.109	2.700	0.007
Marital Status (Never Married)				
Married	0.603	0.096	6.280	0.000
Separated/Divorced/Widowed	-0.198	0.140	-1.410	0.157
/cut1	-2.852	0.299		
/cut2	-0.236	0.282		
/cut3	1.999	0.284		
/cut4	5.434	0.302		
/sigma2_u	3.547	0.285		

### Discussion

The results of this study highlight an interesting relationship between objective financial measures and a household's perception of financial well-being by indicating that first of all, financial well-being is negatively impacted by having debt, and secondly, that lower debt-to-asset ratios and higher gross incomes are associated with a higher likelihood of indicating higher or greater financial well-being. The significance of these results draws insights into how and why consumers are impacted by debt, and how consumers look to available resources, such as income and assets, as a way to handle or cope with their debt situation. Furthermore, these results add credence to the appraisal process and contribute to enhanced and broader knowledge of consumer behavior and predicted household responses to owning debt.

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