



# Household Financial Capability and Economic Hardship: An Empirical Examination of the Financial Capability Framework

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Financial Capability and Asset Building:  
Achievements, Challenges and Next Steps (2020–2025) Convening  
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# Presentation Outline

- Background
  - Research aims
  - Method
  - Results
  - Conclusions
  - Implications
-



# BACKGROUND



# Economic hardship

- Economic hardships among U.S. households are on the rise.
  - **28%** were unable to fully cover their monthly bills or could not do so in the event of a small financial emergency (Board of Governors of the Federal Reserve System, 2020)
  - **25%** skipped medical care because they were not able to afford it (Board of Governors of the Federal Reserve System, 2020)
- Sharpe rise during the COVID-19 pandemic



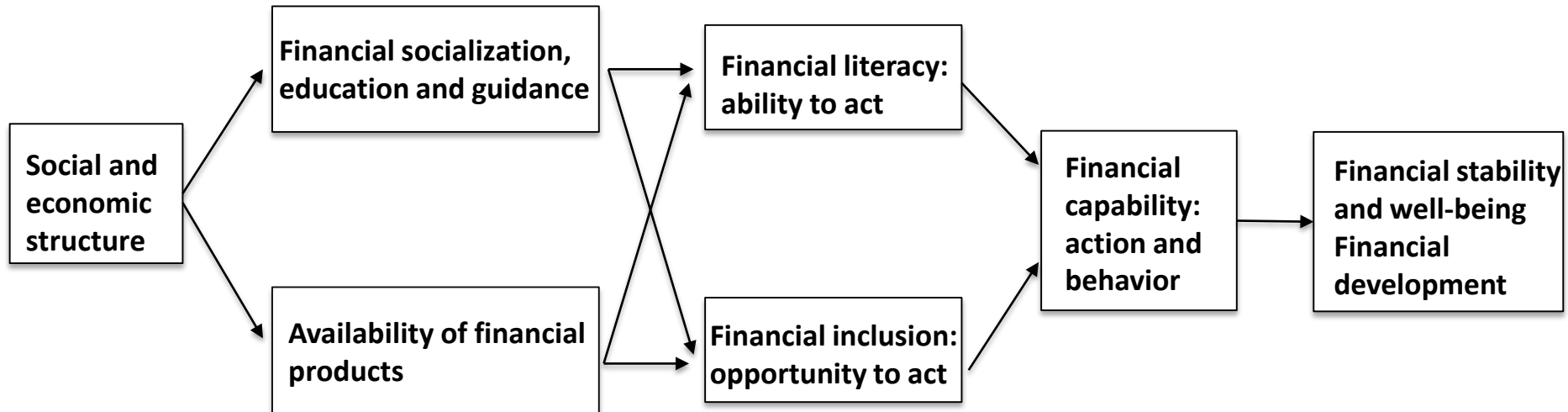


# Financial capability

- Ability to act : Financial knowledge and skills (e.g. determine essential payments; weight delinquent payments)
  - Opportunity to act : Financial access and inclusion (e.g. access to credit, emergency savings)
  - Optimized financial decisions and behaviors (e.g. save for emergencies)
  - Complex and multidimensional
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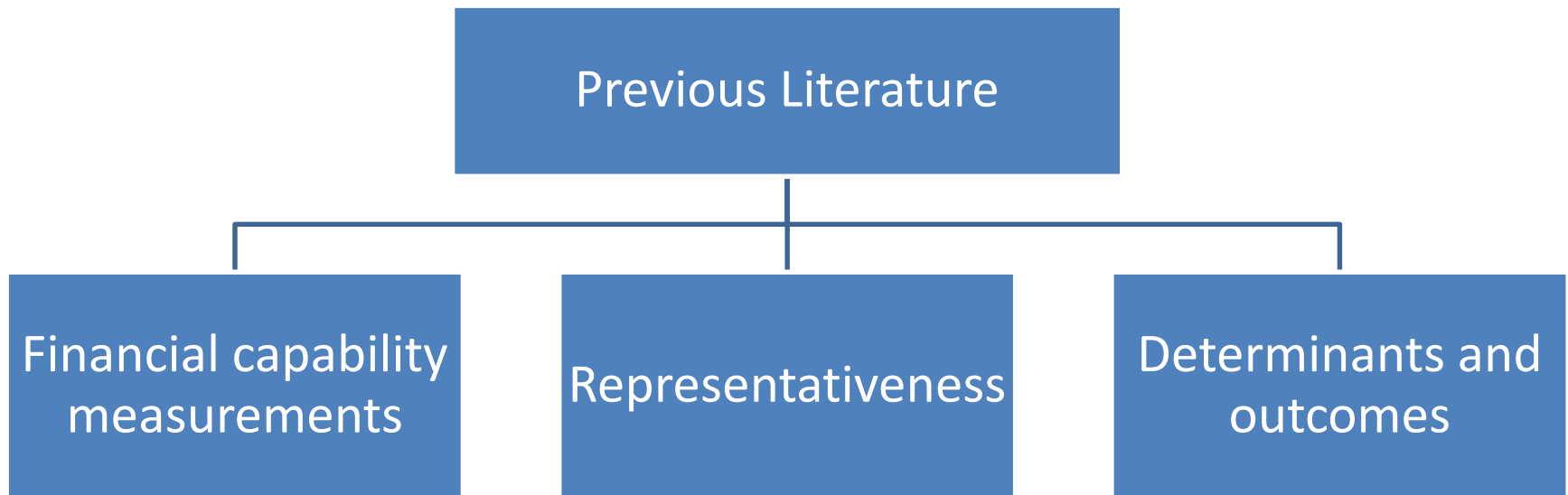


# Financial capability framework



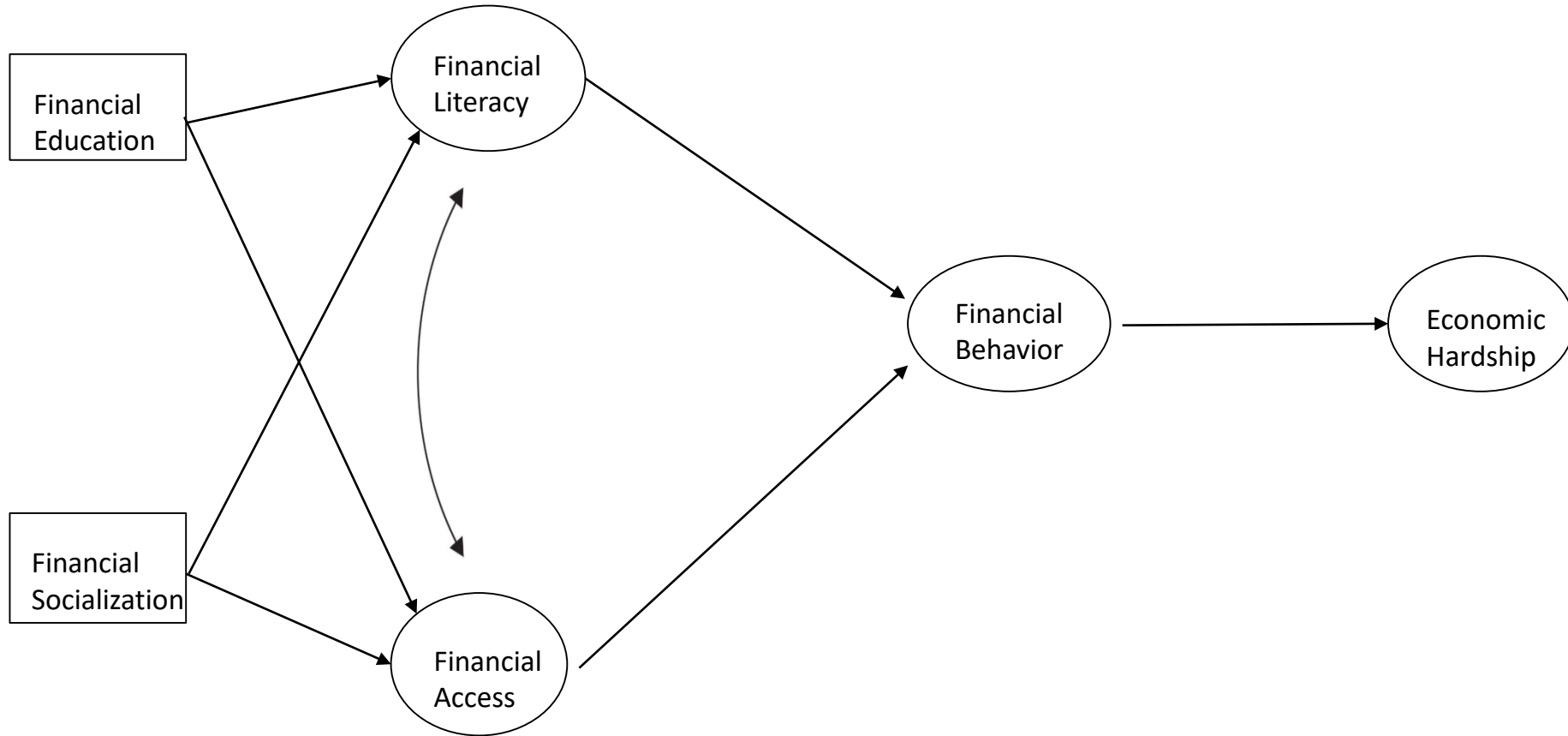


# Research gap





# Conceptual model





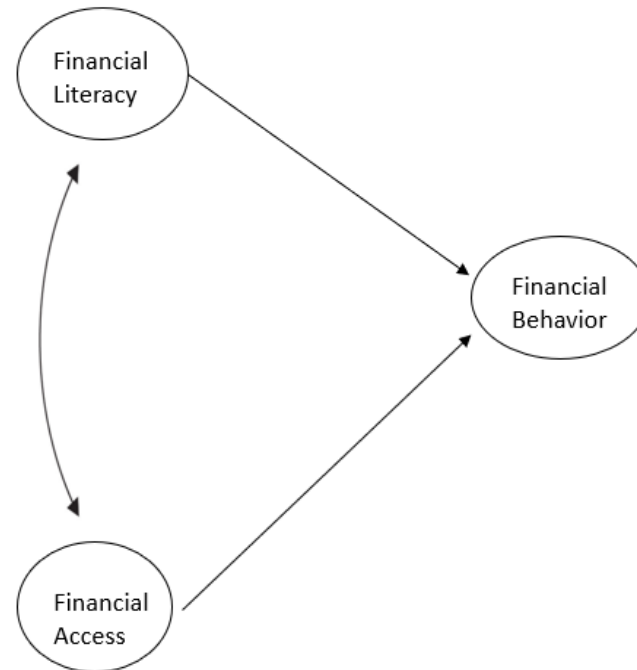


# RESEARCH AIMS



# Research aims

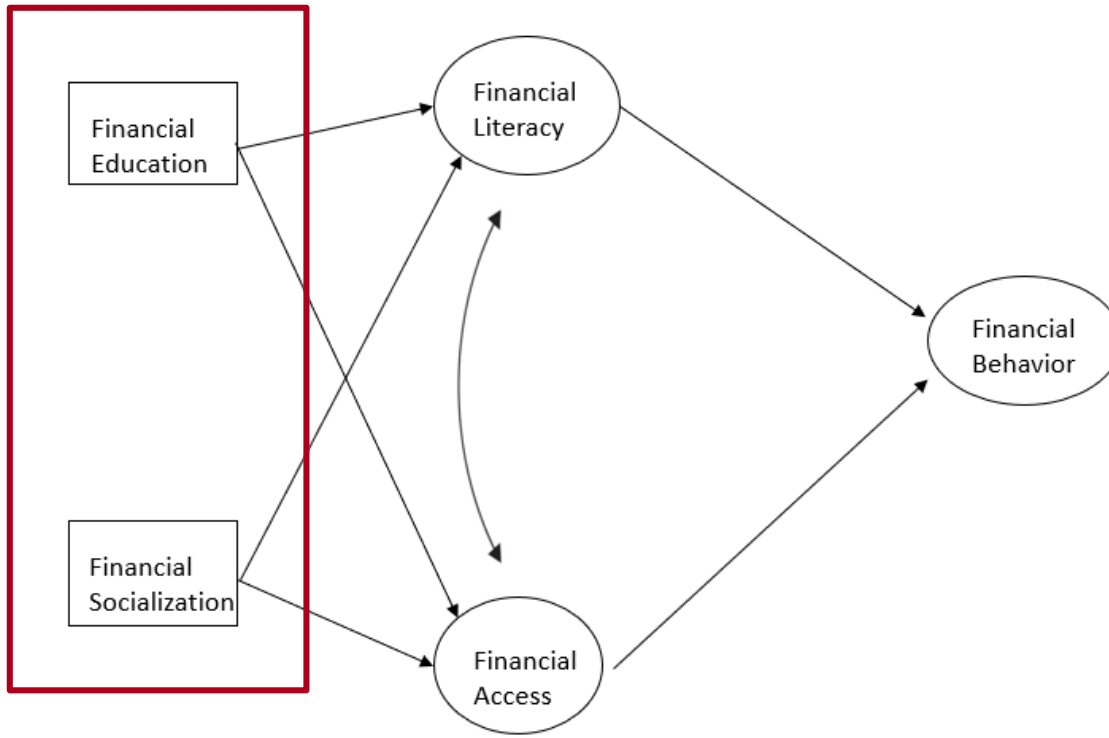
1. Investigate the underlying mechanisms and systematic components of financial capability framework using a national representative data





# Research aims

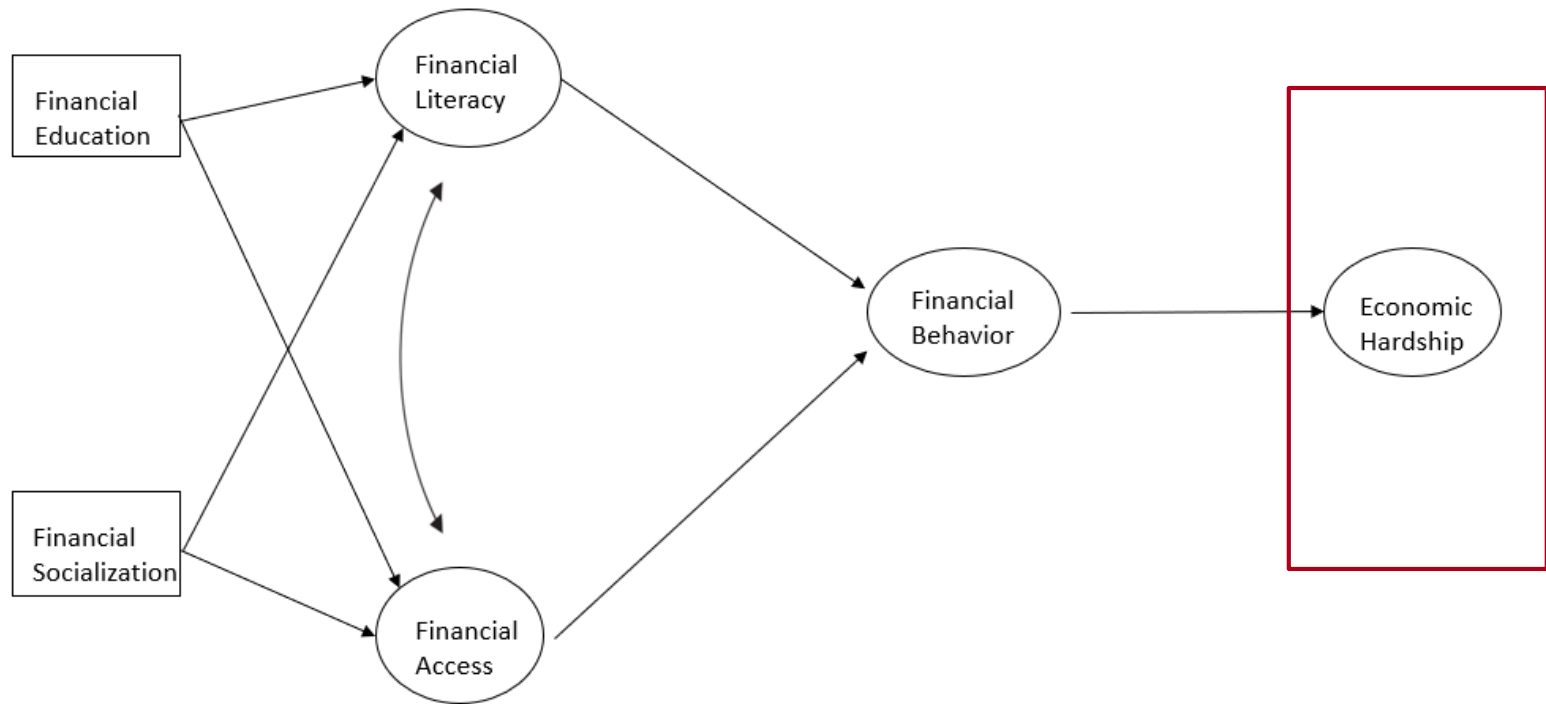
2. Examine how financial education and socialization are associated with financial capability





# Research aims

## 3. Examine associations between financial capability and economic hardship





# Research aims

4. Pathways from financial education/socialization to economic hardship: which path is relatively more important, financial literacy or financial access?





# METHOD

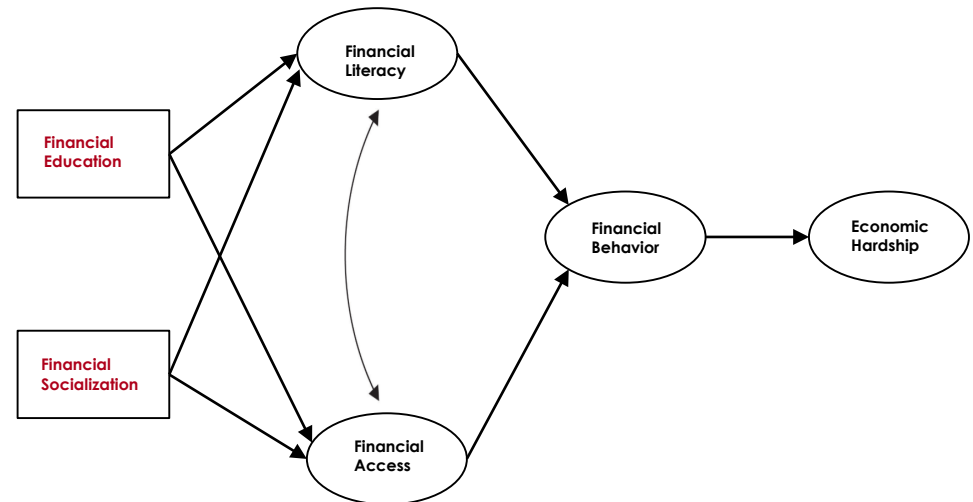


# Data and Sample

- 2015 National Financial Capability Study: State by State Survey
  - A project of the FINRA Investor Education Foundation (FINRA Foundation)
  - 500 individuals per state, plus the D.C.,
  - Oversamples of 1,000 in NY, TX, IL & CA: total interviewed 27,564
  - Final analytic sample: 24,154
  - Weighted to be nationally representative
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# Measures (1)



## ***Financial education***

- 1 Binary measure (*e.g., Received financial education at school or workplace*)

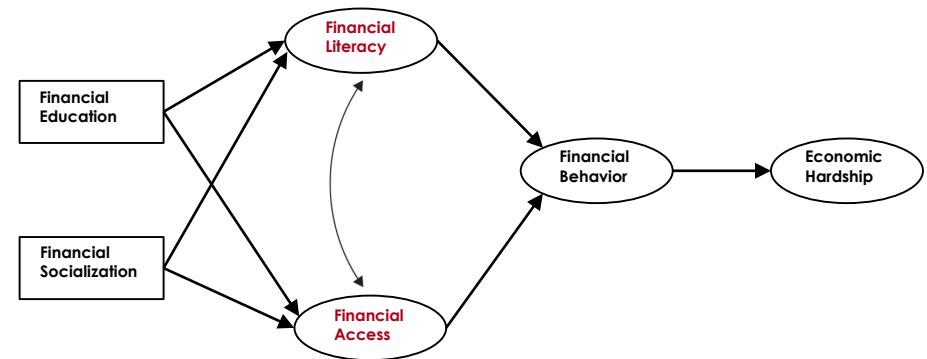
## ***Financial socialization***

- 1 Binary measure (*e.g., Being taught how to manage finance by parents or guardian*)
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# Measures (2)



## ***Financial literacy***

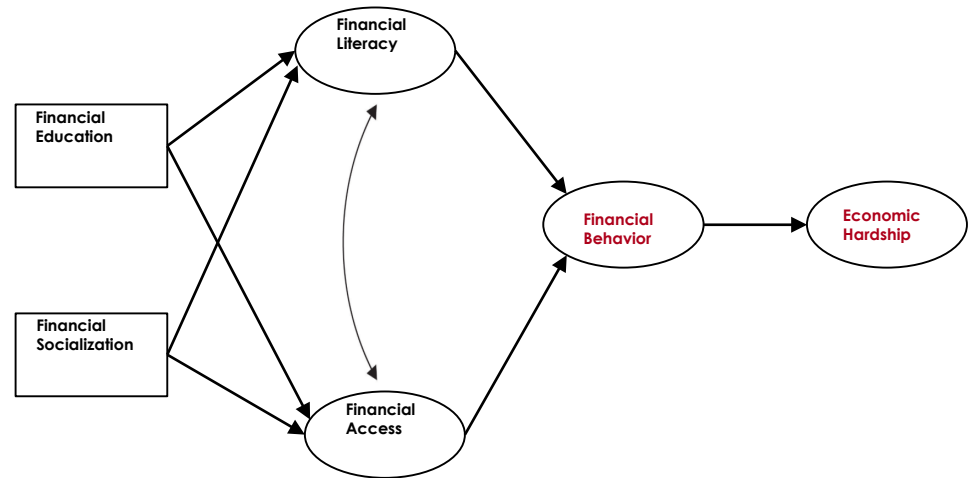
- 3 subjective items (e.g., *Good at deal with day to day financial matters, Self-rated financial knowledge*)
- 6 objective questions (e.g., *Buying a single company's stock usually provides a safer return than a stock mutual funds*)

## ***Financial access***

- 5 binary measures regarding ownerships of financial products (e.g., *Checking, Saving, Investment, Credit cards, & Retirement plans*)
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# Measures (3)



## ***Financial behavior***

- 2 measures describing their financial behavior  
(e.g., *Saving for rainy days; Set long-term financial goals*)

## ***Economic hardship***

- 4 measures covering their economic hardships  
(e.g., *difficulties to cover expenses, Skipped medicine, medical test, and seeing a doctor*)
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# Analytic strategy

- General structural equation model
    - Confirmatory factor analysis-measurement
    - Path analysis-hypothesis
  - Mean- and variance-adjusted weighted least squares (WLSMV) estimator
  - Effect decomposition: (Sobel, 1986)
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# RESULTS



# Weighted sample description

| Variable  | N (weighted %) |
|---|----------------|
| <b>Gender</b>   |                |
| Male  | 12,293 (51.4)  |
| Female  | 15,271 (48.6)  |
| <b>Age</b>  |                |
| 18–24   | 3,050 (12.5)   |
| 25–34   | 5,013 (18.0)   |
| 35–44   | 4,587 (16.3)   |
| 45–54   | 5,026 (18.0)   |
| 55–64   | 4,802 (17.3)   |
| 65 or older   | 5,086 (17.9)   |
| <b>Race</b>   |                |
| White   | 19,836 (65.0)  |
| Non-white   | 7,728 (35.0)   |
| <b>Marital status</b>                                   |                |
| Married   | 16,895 (58.9)  |
| Not married (single, separated, divorced)               | 10,669 (41.1)  |
| <b>Education</b>  |                |
| Less than high school                                   | 591 (2.60)     |
| High school or GED                                      | 6,145 (26.5)   |
| College   | 17,081 (60.5)  |
| Post-graduate   | 3,747 (10.4)   |
| <b>Household income</b>                                 |                |
| Less than \$15,000                                      | 3,162 (12.9)   |
| \$15,000–\$25,000                                       | 2,987 (11.7)   |
| \$25,000–\$35,000                                       | 2,989 (11.2)   |
| \$35,000–\$50,000                                       | 4,050 (15.1)   |
| \$50,000–\$75,000                                       | 5,650 (19.9)   |
| \$75,000–\$100,000                                      | 3,745 (12.6)   |
| \$100,000–\$150,000                                     | 3,368 (11.3)   |
| \$150,000 or more                                       | 1,613 (5.26)   |
| <b>Working status</b>                                   |                |
| Working (self-employed, work full-time, work part-time) | 15,407 (54.6)  |
| Not at work (homemaker, student, employed, retired)     | 12,157 (45.4)  |

N = 27,564



# Results: : Measurement Model (CFA)

| Latent variables        | Items                              | Estimates ( $\lambda$ or $r$ ) |
|-------------------------|------------------------------------|--------------------------------|
| Financial literacy (FL) | (L1) Day-to-day financial matters  | 1.00                           |
|                         | (L2) Good at math                  | 0.72***                        |
|                         | (L3) Financial knowledge           | 0.93***                        |
|                         | (L4) Financial literacy questions  | 0.94***                        |
| Financial access (FA)   | (A1) Checking account              | 1.00                           |
|                         | (A2) Saving account                | 1.03***                        |
|                         | (A3) Investment account            | 1.09***                        |
|                         | (A4) Retirement plan               | 0.94***                        |
|                         | (A5) Having credit card            | 1.09***                        |
| Financial behavior (FB) | (B1) Rainy-day fund                | 1.00                           |
|                         | (B2) Set long-term financial goal  | 0.65***                        |
| Economic hardship (EH)  | (H1) Difficulties covering expense | 1.00                           |
|                         | (H2) Medical difficulties          | 0.48***                        |
| Correlation             |                                    |                                |
| FL $\leftrightarrow$ FA |                                    | 0.56***                        |
| FL $\leftrightarrow$ FB |                                    | 0.57***                        |
| FL $\leftrightarrow$ EH |                                    | -0.42***                       |
| FA $\leftrightarrow$ FB |                                    | 0.79***                        |
| FA $\leftrightarrow$ EH |                                    | -0.51***                       |
| FB $\leftrightarrow$ EH |                                    | -0.65***                       |

The measurement model had a reasonable fit to the data:

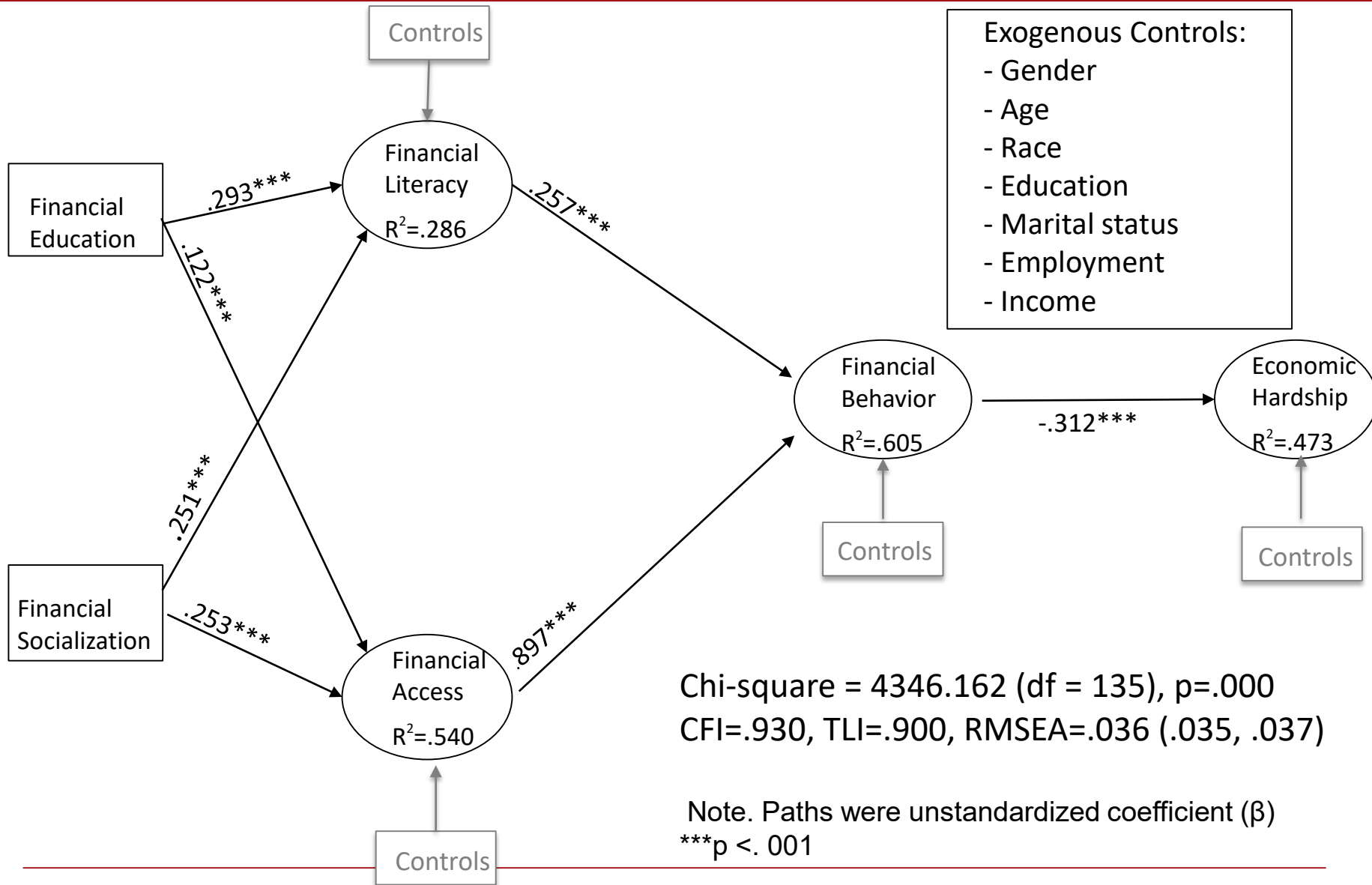
Chi-square = 3651.456 (df = 55),  
p=.000

CFI=.973, TLI=.962, RMSEA=.049  
(.047, .050).

*Note.*  $\lambda$  = item factor loading (unstandardized) for latent variables, and all factor loadings were significant (in standardized estimates);  $r$  = standardized correlation. Results were estimated using weighted least square to correct the categorical nature of indicators.



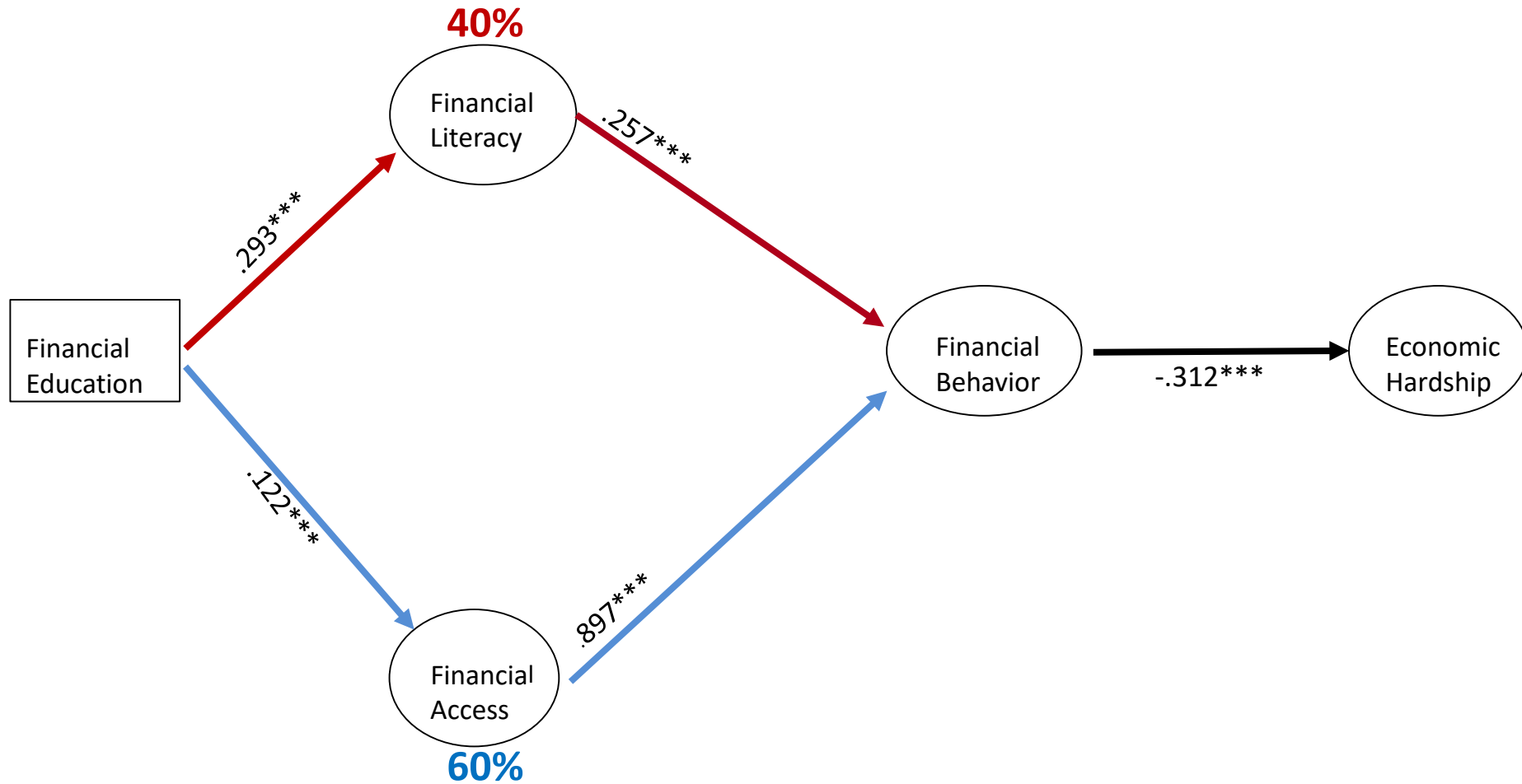
# Results: Path Analysis





# Results: Effect decomposition

Financial education → Economic hardship

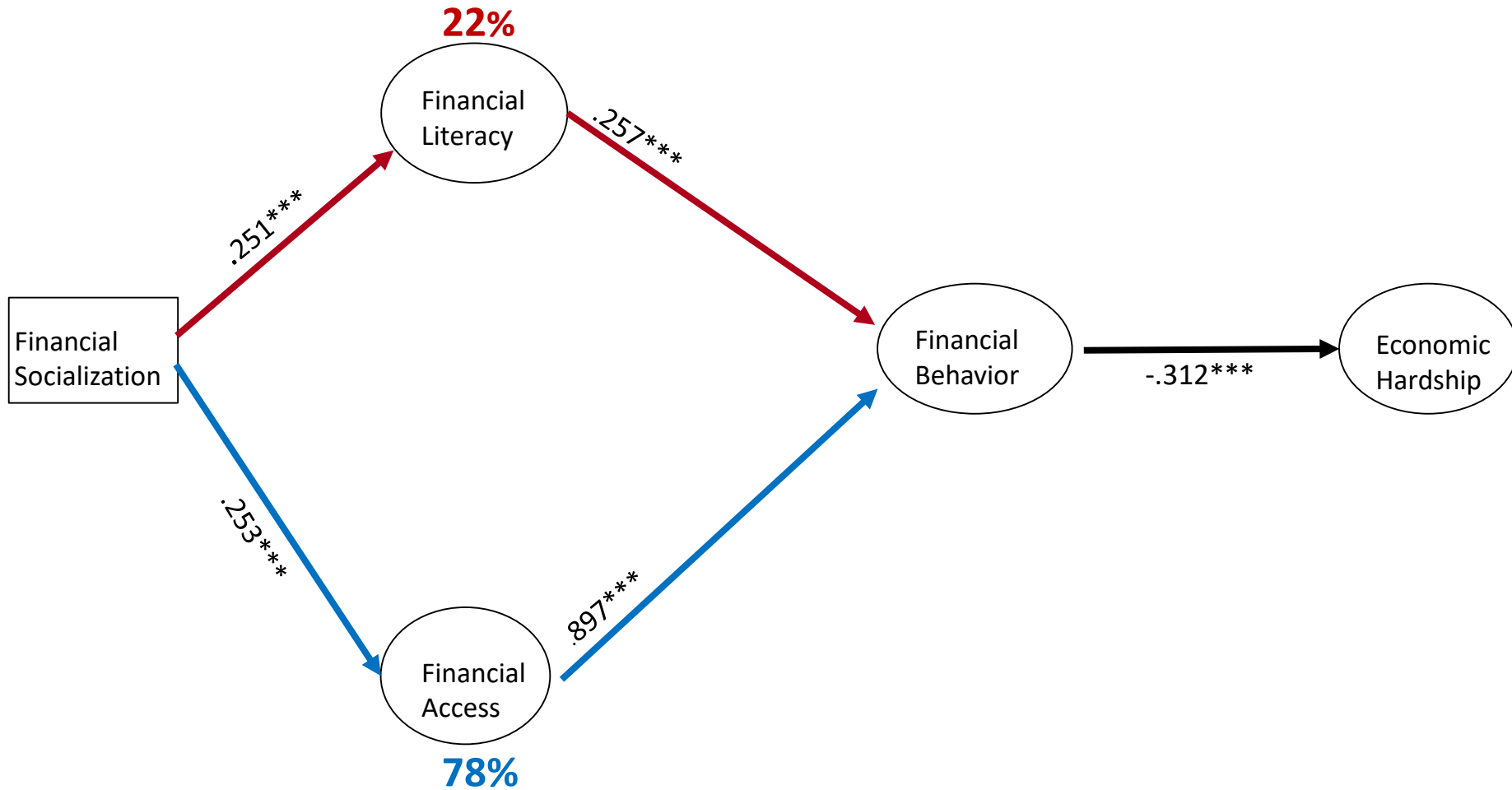






# Results: Effect decomposition

Financial socialization → Economic hardship





# CONCLUSION



# Conclusion

- Supporting financial capability framework with a national representative sample
  - Financial education and socialization were positively associated with financial capability
  - Increased financial capability was associated with lower levels of economic hardship
  - Financial access took up larger percentages than financial literacy in the pathways from financial education/socialization to economic hardship
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# IMPLICATIONS



# Implications

- **Multiple components of financial capability for policy, research, and practice**
    - (Financial literacy and financial access) Ability and opportunity
    - Financial behavior and management
    - Subjective and objective; individual and structural
    - Challenges to measure access: eligibility and practicality
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# Implications

- **Enhancing financial capability by effective financial education and guidance**
    - More evaluations on effectiveness of financial education
    - Diverse population, representative participant or oversample minority groups
    - Financial education decays over time; “Just in time“  
”Rules of thumb“ financial education (Fernandes, Lynch, & Netemeyer, 2014, Mandell & Klein, 2009, Drexler & Fischer., 2014).
    - Accessible, effective education and guidance through the life course
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# Implications

- **Increase financial inclusion efforts**
    - Accessible appropriate, affordable, financially attractive, easy to use, & flexible (Sherraden, 2013)
    - Not once and for all, but continued efforts: a) having the legal right, necessary documentation and eligibility, b) ability to open, afford, and c) use continuously (Birkenmaier et al, 2019)
    - Policies and programs (e.g. Emergency savings, banking, small dollar loans, credit building)
    - Multiple products and services at multiple settings
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# Thank you!

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