Financial Capability and Psychological Well-Being. A Cluster Analysis of Credit Union Members

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This paper provides evidence on the interrelationships between particular domains of financial capability and psychological well-being amongst a sample of 1,600 adult credit union members in the USA. The findings suggest that members who appear to have lower financial capability are also likely to seem less happy, more stressed and have poorer general health and less self-efficacy. The paper highlights the role of credit unions in improving and maintaining members' financial capability and psychological well-being.

Introduction

In the past, there has been limited scientific exploration into how financial capability affects psychological health or well-being. However, there is now increasing evidence that demonstrates the intricate manner in which certain aspects of psychological well-being might affect or may be affected by the way consumers manage their own money (Amatucci and Crawley, 2011; Bridges and Disney, 2010; Taylor et al, 2009; Oaten and Cheng, 2007). There is also a growing recognition that credit unions can have a positive influence on the financial capability and hence the well-being of their members (Chernev, 2010).

This paper was supported by the Filene Research Institute and forms part of a wider PhD study examining the relationships between personal finance and psychological health. It presents some of the initial findings of the research, with a focus on the interrelationship between financial capability and psychological well-being amongst a sample of credit union members in the USA.

Data used for this paper was collected online from 1,600 credit union adult members in Montana and Indianapolis in the USA. The sample consisted of 57.1% female and 42.9% male members, majority (65.9%) of whom were aged 45 years and older and virtually all (89.7%) of the sample had been a credit union member for more than three years. About half (53.4%) of the sample were in full-time employment and one in five (19.1%) members were retired.

The paper uses a statistical-scientific approach to answer the question of how money attitudes and behaviours (ie financial capability) relate to and affect the psychological well-being of credit union members. A clustering technique is used to group credit union members into defined groups based on how organised they *feel* they are with money and how they use their credit union (ie is it their *main* financial provider, or do they use it *alongside* another?). The picture that these clusters provide is clear. That is, the more organised members *feel* they are with managing money day to day, the more they appear to be less stressed, happier and have better general health. That said, it is crucial that members have adequate self-efficacy (ie belief in their own abilities) in order to manage and take care of their finances effectively. The research demonstrates that the greater the level of self-efficacy possessed by members, the more likely they are to experience better general health.

While this paper does not compare the financial capability and psychological well-being of credit union members with non-credit union members, it does however provide some insight to provoke thinking about what credit unions might increasingly do to address the issue of improving the well-being of their members.

The study looked at two of the five domains of financial capability (Atkinson et al, 2006). First, how well members are able to make ends meet and secondly, how well they can keep track of

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their money day to day. In addition, the study looked at the extent to which members' finances are becoming a burden to them (ie termed as "over-indebtedness", according to the Department of Trade and Industry (2004)). The study also looked at psychological well-being in relation to how stressed (Cohen et al, 1983), how happy (Hills and Argyle, 2002) and how healthy (Goldberg et al, 1988) these members are.

In addition to these forms of well-being is the question of how *much* people believe in their own abilities, such as their ability to manage their finances. This is defined as their level of self-efficacy (Schwarzer & Jerusalem, 1995). The measure of self-efficacy (ie General Self-Efficacy) used within this study comprised of twelve attitudinal statements. Following analysis, the strongest of the twelve attitudes that contribute most to increased self-efficacy were having the ability to think of a solution when in trouble; to handle what comes their way; to find several solutions when confronted; to have confidence to deal with unexpected events; and to solve problems by investing effort.

Initial Findings on Financial Capability and Psychological Well-Being

Statistical tests were used to measure the impact of financial attitudes and behaviours on psychological well-being and vice versa. For example, how does the well-being of members who are coping with their debts compare with those who are not? Or, do factors such as employment status, having a financial dependant or feeling organised with your money have any impact on psychological well-being?

Over-indebted members

The first issue examined within this paper is the impact that being over-indebted has on members' psychological well-being. It might be obvious to assume that people who are over-indebted are likely to feel more stressed! However, this paper takes a closer look to understand exactly what relationship exists between the former and the latter. As predicted, there are statistically significant differences between members who feel their debts are becoming a burden (ie members who are over-indebted) and those who do not. Over-indebted members in fact have poorer financial capability and psychological well-being than those who are not.

Members who have outstanding loans, debts and or arrears are generally not as good at making ends meet (than those without loans, etc). They appear to be more stressed out, unhappier and have worse general health. But, there also appears to be a gender split. For example, the data suggests (with statistical significance) that female members generally believe less in their own abilities than males, they are also more stressed and unhappier than males. When it comes to managing money, the data also suggests that women are not as good as men at keeping track of their finances. This contradicts the findings of the UK Financial Capability Survey (Atkinson et al, 2006) which suggests that women are in fact more financially capable than men. In addition, members who pay their bills by direct debit are statistically significantly better at keeping track of their finances than those who do not. The former also report higher levels of self-efficacy than members who do not use direct debits to pay their bills.

Members' employment status

To add context, the study looks at whether any statistically significant differences exist between financial capability and psychological well-being based on employment status. From analysis it emerged that members who are currently in full time employment are statistically significantly more stressed, have worse general health and are unhappier than those who are retired. They are also not as good at making ends meet or keeping track of their money as those who are retired. For instance, people who are retired tend to be older, wiser and perhaps have both more time and more experience to enable them to manage their money more effectively (Seligman and Csikszentmihalyi, 2000). Moreover, from analysis of the data, adult members under the age of 44 years have significantly lower financial capability and psychological well-being than those older than 45 years, including those in or nearing retirement.

Credit union utility

The data also suggests that the there is no significant difference between length of credit union membership and members' financial capability or psychological well-being. Thus, whether held for more than one year or less, there is seen to be no significant impact of credit union membership on any of the domains of financial capability and psychological well-being under investigation. That notwithstanding, analysis of the data shows that credit union members who use their credit union as their *main financial provider* are in fact statistically significantly less able to make ends meet than those who use it *alongside another financial provider*.

Impact of dependents on members

The impact of financial dependents on members' financial capability and psychological well-being was examined. It was found that credit union members, who have greater financial responsibilities (ie a greater number of financial dependents), tend to be more serious about and more in control of their finances.

Feeling organised with managing money

Analysis was also carried out to compare members who feel that they are *organised* with their money with those who feel that they are *not organised at all* with their money. The finding was that members who feel organised with managing their money day to day are statistically significantly more likely to have greater self-efficacy and appear to be less stressed, happier and in better general health.

Member Profiles (Clusters)

Following a two-step cluster analysis, four member profiles were created. These clusters were mainly predicated on features such as how organised they feel they are when it comes to managing their money day to day, the extent to which they use their credit union and how well they are able to make ends meet. Other factors such as stress levels and self-efficacy were also used in the clustering process.

The Role of Credit Unions in Promoting Financial Capability and Psychological Well-Being

This study provides evidence that amongst this particular sample of members, credit unions are in fact the main and, perhaps for some, the *only* financial provider of products and services. However, there is found to be no statistically significant difference in psychological well-being between members who use their credit union as their main provider and those who use alongside another bank. Therefore, viewed against the evidence presented within this paper, the role of credit unions is highlighted in terms of whether credit unions could play a part in improving and maintaining their members' financial capability and psychological well-being.

Furthermore, within-cluster correlations between financial capability and psychological well-being indicate that an increase in self-efficacy can bring about an increase in the ability of some members to make ends meet and hence feel happier and less stressed.

Changing members' beliefs and behaviour

Analysis shows that there is a significant, but moderate, relationship between self-efficacy, stress, happiness and members' ability to make ends meet. Given the impact of self-efficacy on both the financial capability and psychological well-being of these members, it should therefore be possible to observe improvements in well-being through increasing self-efficacy. For example, through *supporting and encouraging* members to manage their money better, credit unions might thus be able to help members to *feel* happier, less stressed and experience better general health.

Assisting members to be organised with their money

It is noticeable from the analysis of the different clusters that the more organised members *feel* with managing their money day to day (ie the more financially capable they are), the more likely they are to have better psychological well-being. Comparing members who feel *very* organised with their money to those who do not feel organised *at all*, provides further interesting insights. For instance, members who feel *very* organised with their money are statistically significantly more likely to have higher levels of self-efficacy. These members also have statistically significantly lower levels of stress and have statistically significantly higher levels of happiness.

Conclusion

This paper provides evidence on the interrelationships that exist between particular aspects of financial capability and psychological well-being amongst a sample of credit union members in the USA.

Credit unions might therefore effect improvements in psychological well-being by ensuring that their members are getting the right combination of information, knowledge, advice and skills to equip them financially. This could be done directly through credit unions offering financial capability programmes to members. Or, by doing something indirectly such as ensuring that written and marketing communications do more to promote changes in financial behaviour so that members begin to take more control of their finances (Money Advice Service, 2010). Another potential solution to improving members' well-being could be through credit unions establishing and utilising effective referral channels for members to take up money advice services, where necessary.

To that end, the study presents a good case for financial capability programmes being worthwhile interventions to increase both the financial capability and psychological well-being of credit union members. Credit unions not currently providing financial capability programmes (directly or indirectly) should consider exploring this as a medium through which to improve their members' levels of well-being overall.

The Author

Gregory Sheen is a final year doctorate research student at the Liverpool John Moores University. His thesis focuses on financial capability and the relationship this has with psychological health. He has both market research and academic research experience exploring consumer finance issues among low income groups.

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