

Does Financial Literacy Contribute to Happiness?

By Dan Stone, Ben Wier, and Stephanie M. Bryant

SEPTEMBER 2007 - The AICPA's 360 Degrees of Financial Literacy educational program, begun in May 2004, partners with state CPA societies to help people of all ages better manage their finances (www.360financialliteracy.org). The importance of improving financial literacy is underscored by the results of a recent study funded by the AICPA (www.beaconecon.com/Documents/SavingsReport10_16.pdf):

- Americans' personal savings rate has declined each year since 1982.
- The U.S. savings ratings became negative for the first time in April 2005.
- The past 20 years show decreasing attention to asset accumulation.
- Tomorrow's workforce is not financially prepared.

A core aspect of the 360 Degrees program is the identification of 11 life stages, each with its own financial issues and concerns ([Exhibit 1](#)). Some life stages are determined by age (e.g., childhood, "sandwich generation," retirement), while others are determined by individual choice (e.g., military duty, home ownership, entrepreneurship).

Hundreds of volunteer CPAs, financial planners, accounting professors, and students work independently through their state societies to improve financial literacy. Some offer pro bono financial planning services, while others present financial literacy information to student or community groups. The AICPA provides a wealth of resources, such as PowerPoint presentations, mobilization kits, and other tools to support these volunteers (see www.aicpa.org/financialliteracy/resources_for_all_volunteers.asp). Twenty-six states also have developed financial literacy programs.

A central premise of the program is that financial education improves the quality of one's life. But are there other benefits to achieving financial literacy? For example, are the financially literate happier than the financially illiterate? Much research exists on the self-inflicted psychological harm caused by greedy individuals who value money and possessions above other core personal values. The authors' interest, consistent with 360 Degrees, is whether individuals with more positive attitudes toward money and more financial knowledge are happier than others.

Research Studies

To investigate these and related questions, the authors conducted five research studies involving 1,252 students and 207 professionals. [Exhibit 2](#) summarizes these studies, which were designed to draw some conclusions about the relationships among financial attitudes, financial knowledge, and happiness.

The first two studies adapted a psychological concept called "self-determination theory" to develop, test, and refine three measures of "positive" financial attitudes. These are: 1) financial self-efficacy, the belief that one can competently manage one's finances; 2) financial autonomy, the belief that one's financial decisions result from personal choices; and 3) financial community and relatedness, the belief that financial resources can create and sustain community and interpersonal relationships. The second study also measured participants' personal financial knowledge (financial literacy). Studies 2 through 5 measured participants' happiness using several measures of psychological health. The happiness measures evaluated participants' satisfaction with life (e.g., "I am satisfied with my life"), vitality (e.g., "I feel alive and vital"), depression (e.g., "In the past week, I felt downhearted and blue"), anxiety (e.g., "In the past week, I found it hard to wind down"), financial stress (e.g., "How often do you worry about your financial situation?"), and life stress (e.g., "In the past week, I found it difficult to relax").

The first study was conducted using paper instruments, while studies 2 through 5 were administered online. Participants received either class credit (for students) or the opportunity to win a cash prize (for professionals) for participating. About 64% of participants had two years or less of full-time work experience, about 24% had three to 10 years of work experience, and about 12% had 11 to 55 years of work experience. All of the results discussed here are statistically significant based on general linear models.

The results indicate that, among both student and professional participants, individuals with more positive financial attitudes are happier and have higher financial literacy. As accounting teachers, the authors had expected to also find that higher financial knowledge leads to more happiness. Surprisingly, however, the link between financial *attitudes* and happiness appears stronger than the link between financial *literacy* and happiness. Unfortunately, the research method doesn't allow a determination as to exactly *why* these relationships occur. Common sense suggests that part of the value of increasing financial literacy may be changing people's attitudes about money. Specifically, people who are financially literate are also more likely to believe that: 1) They can successfully manage their finances; 2) Their financial decisions reflect their personal values and choices; and 3) Financial resources are valuable mostly because they can create and sustain community and interpersonal relationships.

The authors found evidence for life-stage differences in financial attitudes and knowledge. For example, older respondents had more financial knowledge, a greater sense of financial autonomy, more intrinsic financial goals (e.g., retirement, an emergency fund, and donations to charity), and fewer extrinsic financial goals (e.g., to be wealthy, to own expensive possessions, to be financially successful) than did younger respondents.

The authors' research has led to a deeper appreciation and admiration of the AICPA's 360 Degrees of Financial Literacy campaign. We now believe that such programs not only change people's knowledge of money, but also contribute to happiness and psychological health. Academic researchers are eager to partner with state societies, CPAs, and financial planners who want to further explore the connection between financial literacy, positive financial attitudes, and psychological health.

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