

Does a sense of personal control increase financial well-being?

Abstract

We examine the linkage between a sense of personal control and financial well-being among the elderly during COVID-19 using nationally representative data. Further, we investigate whether the big five personality traits alter this linkage. We find a positive relationship between personal control and financial well-being. Further, this linkage is stronger for individuals having high openness to experience and conscientiousness. Interestingly, we find a negative relationship between personal control and financial well-being among individuals having high neuroticism trait. The implications for the theory and practice are discussed.

Keywords: Personal control, big five personality traits, financial well-being

1. Introduction

Financial well-being is a critical aspect of one's overall well-being, and it mainly depends on perception rather than the objective situation (Netemeyer et al., 2018). Individuals respond differently under the same condition and report different financial well-being due to their psychological factors and personality traits (Parise and Peijnenburg, 2019; Tharp et al., 2020). The loss of control over the external situation was pervasive during the pandemic because of the spread of infection, job loss and salary cuts, lockdowns, and physical movement restrictions (Alvarez et al., 2020). Overall, it was easier to feel helpless; hence individuals with higher personal control would navigate through such situations smoothly by forming favorable perceptions. Therefore, we examine the linkage between personal control and financial well-being.

Personal control is related to the belief that the outcomes of one's life depend on their own choices, and one can change the situation (Mirowsky and Ross, 1998). Personal control is "the perception of oneself as an effective person" (Ross and Broh, 2000, pp-271). Individuals having a higher personal control are likely to exert more effort, have high motivation and persistence, which leads to several positive outcomes such as better health (Mirowsky and Ross, 1998), academic performance (Ross and Broh, 2000), and higher earnings (Ross and Sastry, 1999). Personal control is outcome-oriented, and people with high personal control are effective forces in their own lives. According to the theory of personal control (Ross, 1989), individuals with high personal control cope with persistence and get desirable outcomes. Because of a proactive outlook, individuals with high personal control can prevent avoidable problems (Ross and Sastry, 1999). Financial distress arises because of a lack of control over one's financial situation, and many of these problems are avoidable in nature with proper financial management. Thus, to secure one's financial future, it is important to believe that one's financial outcomes are under her own control. People who believe that their actions and

decisions can control their future outcomes are more likely to undertake proactive financial behaviors such as saving for retirement and limit their unnecessary spending, which would increase their financial well-being. Therefore, individuals with high personal control are more likely to perceive their financial troubles as avoidable and overcome them with their high motivation, effort, and persistence, leading to high financial well-being.

The existing literature on coping mechanisms suggests that an individual's personality traits play an important role in one's response to external stimuli (Olff et al., 1993). Personality traits are "relatively enduring styles of thinking, feeling, and acting that characterize an individual" (Costa et al., 1995). We posit that the linkage between personal control and FWB would vary depending on personality traits because of the person-situation interaction, and individuals could influence their situations (Heller et al., 2004). Openness to experience is related to having intellectual curiosity and aesthetic sensitivity when they also have high personal control. It would help them explore more financial choices. Conscientiousness is orderliness, planning, and organized behavior, which may amplify the benefits of personal control and lead to higher FWB. Agreeable individuals with high personal control may benefit much as they look for external approval and harmony and would be more likely to seek financial advice, which may enhance their overall financial health. Extrovert individuals are assertive, warm, and outgoing. When individuals with high personal control are also extroverts, they may be more likely to take advantage of their social network to exert more control over their financial situation and make better financial choices to increase FWB. Neurotic individuals are by nature more likely to get anxious and dwell on negative emotions. Therefore, we hypothesize that the positive effect of personal control on FWB would be reduced for high neuroticism individuals.

2. Method

2.1. Sample

We use the data from the 2020 wave of Health and Retirement Study (HRS). This is a nationally representative panel of individuals above age 50. The survey is conducted biennially and is representative of the American population. We use the leave behind psychosocial and lifestyle questionnaire administered to only half of the original sample in each wave. After discarding the observations with missing values, our sample consists of 934 observations.

2.2. Measures

Financial well-being: Financial well-being is defined as “a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future and is able to make choices that allow them to enjoy life” (CFPB, 2017, p-6). For financial well-being, a 10-item scale given by Consumer Financial Protection Bureau (CFPB) was used (CFPB,2020).¹

Personal control: Personal control was measured by a 5-item scale (Lachman and Weaver, 1998). These items are “other people determine most of what I can or cannot do,” “There is little I can do to change many of the important things in my life,” “I often feel helpless in dealing with the problems of life,” “I can do just about anything I really set my mind to” and “When I really want to do something, I usually find a way to succeed at it.” Reverse coded items were transformed, and the responses were collected on a six-point Likert scale. The reliability score of this scale is 0.77.

Personality traits: The big five personality traits were measured using a 31-item scale given by Midlife Development Inventory (Lachman and Weaver, 1997). The construction of five

¹ Please see Brenner et al. (2020) for the detailed explanation of this variable.

dimensions of big five personality traits from this scale follows the procedure described in Smith et al. (2017).

Control variables: We control for socio-demographic variables such as age, gender, wealth, and income. Further, we also include future and health-related concerns as control variables.

<Insert Table 1 here>

3. Results

Table 1 reports the bivariate correlations and descriptive statistics for the variables used in the study. We observe that the correlation between personal control and financial well-being is significant ($r=0.401$, $p<0.01$).

We report OLS regression results in Table 2 and document the relationship between personal control and financial well-being without any control variables in Model 1, with control variables in Model 2. The coefficient for personal control is significant ($\beta=2.600$, $p<0.01$). Our main hypothesis is supported.

<Insert Table 2 here>

To test the moderating effect of personality traits, we follow the approach given by Baron and Kenny (1986). We include personality traits in Model 3, and the interactions with each of the five personality traits with personal control are reported through Models (4) to (8). We find that openness to experience ($\beta=1.145$, $p<0.05$, see Figure 1) and conscientiousness ($\beta=1.967$, $p<0.01$, see Figure 2) significantly moderates the linkages between personal control and financial well-being. Further, the interaction term with neuroticism is negative ($\beta=-1.346$, $p<0.05$), suggesting that individuals having personal control and high on neuroticism have reduced financial well-being (see Figure 3).

<Insert Figures 1, 2 and 3 here>

4. Discussion and Conclusion

In the present study, we examined the linkage between a sense of personal control and financial well-being and further show that this linkage varies based on individual personality traits. We find that perceived control is positively related to financial well-being. Further, we find that this positive linkage is stronger for individuals having high openness to experience and high conscientiousness. Interestingly, under high personal control, neurotic individuals reported lower financial well-being.

We find that personal control increases financial well-being depending on one's personality traits. The existing literature on well-being focuses mainly on the bottom-up approach assuming one's overall well-being depends on well-being experienced in a particular domain (Emmons and Diener, 1985). Our findings support the top-down approach of well-being, which propagates that well-being is subjective; individuals can influence it by altering their experiences depending on their personality traits (Lucas and Diener, 2009). The findings of the study can be used in implementing the top-down approach of personality traits in understanding financial well-being, which is largely underexplored in the existing literature. The combined examination of household finance and individual differences may rapidly advance the existing body of knowledge on financial well-being. Due to the data's cross-sectional nature, there needs to be cautious while interpreting the study's findings. Future inquiries may extend this study by employing longitudinal data.

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Table 1: Descriptive statistics and bivariate correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Financial well-being	1												
(2) Personal control	0.401***	1											
(3) Age	-0.025	-0.013	1										
(4) Gender	0.042	-0.01	-0.182***	1									
(5) Wealth	0.126***	0.054*	-0.034	0.014	1								
(6) Income	-0.035	-0.01	0.007	0.04	0.158***	1							
(7) Health related concern	-0.241***	-0.203***	-0.005	0.011	-0.070**	0.037	1						
(8) Future related concern	-0.353***	-0.240***	-0.041	0.012	-0.060*	0.018	0.645***	1					
(9) Openness to experience	0.193***	0.387***	-0.007	-0.019	0.021	0.021	-0.05	-0.065**	1				
(10) Conscientiousness	0.247***	0.393***	0.006	-0.05	0.047	-0.018	-0.076**	-0.105***	0.354***	1			
(11) Extroversion	0.193***	0.375***	-0.038	0.003	-0.013	0.052*	-0.133***	-0.143***	0.546***	0.258***	1		
(12) Agreeableness	0.044	0.303***	-0.063**	-0.026	-0.002	0.04	-0.048	-0.05	0.432***	0.369***	0.537***	1	
(13) Neuroticism	-0.333***	-0.435***	0.052*	-0.043	-0.067**	-0.008	0.201***	0.319***	-0.250***	-0.261***	-0.246***	-0.146***	1
Mean	36.707	5.044	81.645	1.595	8.146	38400000	5.692	5.505	2.989	3.311	3.169	3.511	1.942
Standard deviation	8.338	0.920	5.950	0.491	7.515	226000000	3.136	3.210	0.550	0.407	0.584	0.492	0.613
Minimum	10	1	46	1	0	0	0	0	1	1.6	1.4	1.4	1
Maximum	52	6	96	2	22.515	3000000000	10	10	5	4.9	4.4	4	4.5

This table reports descriptive statistics and correlations.

Table 2: Regression results for personal control and financial well-being

VARIABLES	β	se	β	se	β	se	β	se	β	se	β	se	β	se
Personal control	3.581***	(0.358)	3.023***	(0.345)	2.600***	(0.460)	-0.678	(1.571)	-3.714	(2.336)	2.108	(1.889)	0.708	(2.681)
Age			-0.043	(0.049)	-0.055	(0.049)	-0.056	(0.049)	-0.057	(0.049)	-0.055	(0.049)	-0.056	(0.049)
Gender			0.475	(0.622)	0.630	(0.600)	0.601	(0.596)	0.596	(0.598)	0.626	(0.598)	0.610	(0.602)
Wealth (log)			0.099**	(0.039)	0.091**	(0.038)	0.088**	(0.039)	0.094**	(0.038)	0.091**	(0.039)	0.092**	(0.038)
Respondent's income			-0.000	(0.000)	-0.000	(0.000)	-0.000	(0.000)	-0.000	(0.000)	-0.000	(0.000)	-0.000	(0.000)
Health related concern			0.099	(0.107)	0.111	(0.104)	0.093	(0.105)	0.103	(0.104)	0.110	(0.104)	0.103	(0.105)
Future related concern			-0.685***	(0.110)	-0.630***	(0.111)	-0.618***	(0.110)	-0.605***	(0.110)	-0.628***	(0.110)	-0.625***	(0.111)
Openness to experience					0.025	(0.716)	-5.575*	(2.894)	0.108	(0.706)	0.036	(0.713)	0.075	(0.707)
Conscientiousness					3.253***	(0.783)	3.293***	(0.772)	-6.538*	(3.841)	3.255***	(0.782)	3.255***	(0.785)
Extroversion					0.687	(0.707)	0.664	(0.696)	0.667	(0.710)	-0.136	(3.439)	0.654	(0.705)
Agreeableness					-2.461***	(0.759)	-2.428***	(0.757)	-2.461***	(0.750)	-2.468***	(0.762)	-5.219	(4.226)
Neuroticism					-0.864	(0.598)	-0.811	(0.592)	-0.815	(0.586)	-0.865	(0.599)	-0.875	(0.601)
Personal control*openness to experience							1.145**	(0.561)						
Personal control*conscientiousness									1.967***	(0.729)				
Personal control*extroversion											0.164	(0.642)		
Personal control*agreeableness													0.553	(0.786)
Personal control*neuroticism														-1.346**
Constant	19.732***	(1.890)	27.632***	(4.938)	27.416***	(5.802)	43.175***	(10.310)	58.404***	(14.002)	29.851**	(11.963)	36.934**	(16.012)
R-squared	0.158		0.227		0.260		0.266		0.269		0.260		0.261	

N=934, se=standard errors. Table 2 presents the results for regression analysis featuring financial well-being as a dependent variable.

Figure 1: Interaction between personal control and openness to experience

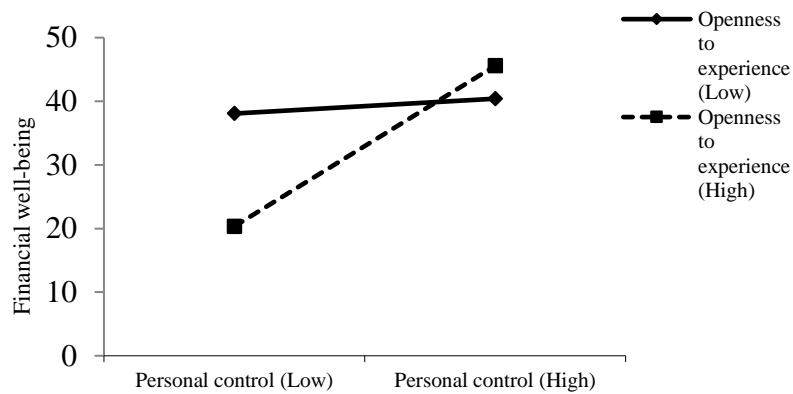


Figure 2: Interaction between personal control and conscientiousness

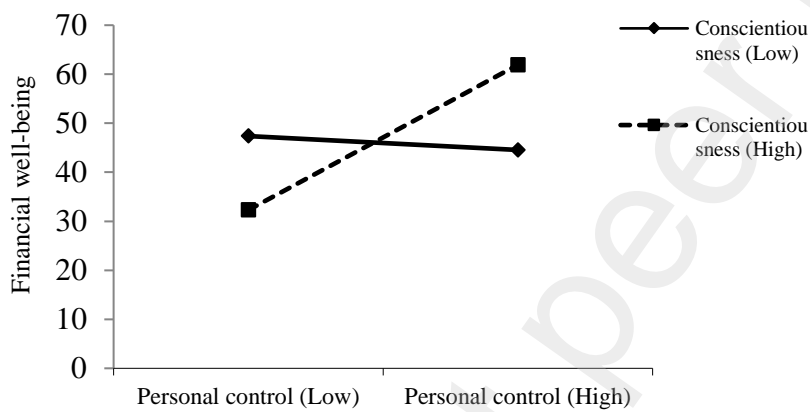


Figure 3: Interaction between personal control and neuroticism

