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FINANCIAL WELLBEING: A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT

Financial well-being is a multidimensional concept that reflects an individual's ability to manage financial resources effectively, maintain financial security, and achieve economic stability. It encompasses key aspects such as financial literacy, income sufficiency, savings behavior, debt management, and financial resilience. Financial well-being is strongly linked to overall life satisfaction, psychological health, and social well-being, as financial stress can significantly impact mental and emotional stability. Various researchers have defined financial well-being differently, with common themes revolving around financial security, financial freedom, and the ability to meet present and future financial obligations. This systematic literature review explores the theoretical foundations of financial well-being, examines existing studies in the field, and identifies key factors influencing financial well-being across different demographics. The review aims to provide insights into the relationship between financial well-being and overall quality of life, as well as highlight gaps in the literature for future research.

KEYWORDS: Financial Wellbeing, Financial Security, Debt Management, Financial Stress, Household Finance, Personal Finance.

INTRODUCTION FINANCIAL WELL-BEING

Financial well-being refers to an individual's subjective experience of financial security, stability, and the ability to manage economic resources effectively. It is a holistic concept that encompasses various aspects of financial health, including income sufficiency, savings habits, debt management, financial literacy, and future financial preparedness. A financially well individual feels in control of their financial situation, is able to meet current and future financial obligations, and has the financial freedom to make choices that enhance their quality of life.

Simply put, financial well-being is about feeling secure and confident in one's financial situation, having the ability to handle financial challenges, and maintaining a balance between income, expenses, and savings. It goes beyond just the absence of financial distress and includes a person's overall sense of financial satisfaction, security, and resilience against economic uncertainties. Financial well-being is a critical component of an individual's overall well-being, as financial stress can significantly impact mental health, emotional stability, and life satisfaction.

The definition of financial well-being is an area of discussion among researchers. However, the Consumer Financial Protection Bureau (CFPB) defines financial well-being as "a state in which a person can fully meet current and ongoing financial obligations, feel secure in their financial future, and make choices that allow them to enjoy life" (CFPB, 2015). This definition highlights the multidimensional nature of financial well-being, which includes financial security, economic resilience, and the ability to make financial decisions that support personal goals and aspirations.

Definitions and Dimensions of Financial Well-being

Defining financial well-being in a clear and precise manner remains a challenge in financial research. Various scholars and institutions have proposed different perspectives on what constitutes financial well-being.

The Consumer Financial Protection Bureau (CFPB) (2015) defines financial well-being as "a state in which an individual has control over day-to-day and month-to-month finances, has the capacity to absorb financial shocks, is on track to meet financial goals, and has the financial freedom to make choices that allow enjoyment of life." This definition highlights four key dimensions: financial control, financial resilience, goal achievement, and financial freedom.

Similarly, Shim et al. (2009) conceptualized financial well-being as an individual's perception of their financial security and financial satisfaction, influenced by financial literacy, financial behaviours, and external economic conditions. They emphasized that financial well-being is not merely about wealth accumulation but also about having a stable and stress-free financial life.

Xiao (2014) expanded on this idea by identifying three major components of financial well-being:

(1) Objective financial status - measurable factors such as income, debt, savings, and assets; (2) Subjective financial perception - personal satisfaction and confidence in financial decision-making; and (3) Financial behaviours and literacy - the ability to manage finances effectively, including budgeting, investing, and long-term planning.

Analysis Table 1: Comparative Summary of Key Definitions of Financial Well-being

The definitions reviewed above differ in emphasis - some foreground measurable financial conditions, others foreground subjective perception. The table below synthesizes these definitions side by side to highlight points of convergence and divergence.

Author(s)/Source	Core Definitional Focus	Key Dimensions Emphasized
CFPB (2015)	Ability to meet obligations and exercise financial choice	Financial control, resilience to shocks, goal progress, financial freedom
Author(s)/Source	**Core Definitional Focus**	**Key Dimensions Emphasized**
Shim et al. (2009)	Perceived financial security and satisfaction	Financial literacy, financial behaviour, external economic conditions
Xiao (2014)	Multi-component model of economic well-being	Objective financial status, subjective perception, behaviours/literacy

Interpretation: While the CFPB frames financial well-being primarily around control and freedom, Shim et al. foreground subjective perception, and Xiao offers the most integrative view by combining objective, subjective, and behavioural elements. Across all three, financial behaviour and perceived security recur as common threads, suggesting that any single-dimension definition (e.g., income-based) would be inadequate.

Components of Financial Well-being

Financial well-being is a broad and multidimensional concept that includes financial security, stability, and the ability to meet financial goals. Several essential components of financial well-being have been widely recognized in the literature.

- Financial Security: The ability to meet current financial obligations, manage unexpected expenses, and maintain a stable income stream (Xiao, 2014; CFPB, 2015).
- Financial Control: The ability to manage personal finances effectively, including budgeting, debt repayment, and spending control (Garman & Forgue, 2018; Lusardi & Mitchell, 2014).
- Low Levels of Financial Stress: Managing stress caused by debt, insufficient savings, or economic instability is essential to psychological well-being (Shim et al., 2009; Netemeyer et al., 2018).

- Financial Autonomy: The ability to make independent financial decisions and sustain a sense of financial freedom (Xiao & Porto, 2017).
- Positive Financial Behaviours: Saving, investing, and avoiding unnecessary debt contribute to long-term financial well-being (Hilgert, Hogarth, & Beverly, 2003).
- Future Financial Preparedness: Planning for retirement, emergency funds, and long-term investments (Lusardi, 2019).
- Personal Financial Growth: Continuous learning about financial management and wealth-building techniques (Fernandes, Lynch, & Netemeyer, 2014).

Analysis Table 2: Components of Financial Well-being Mapped to Supporting Literature The seven components identified in the literature can be organised by the level at which they operate - structural/economic, behavioural, or psychological - to clarify how they interact rather than function as a simple checklist.

Component	Level of Operation	Key Supporting Literature
Financial Security	Structural/Economic	Xiao (2014); CFPB (2015)
Financial Control	Behavioural	Garman & Forgue (2018); Lusardi & Mitchell (2014)
Low Financial Stress	Psychological	Shim et al. (2009); Netemeyer et al. (2018)
Financial Autonomy	Psychological	Xiao & Porto (2017)
Positive Financial Behaviours	Behavioural	Hilgert, Hogarth & Beverly (2003)
Future Financial Preparedness	Structural/Economic	Lusardi (2019)
Personal Financial Growth	Behavioural	Fernandes, Lynch & Netemeyer (2014)

Interpretation: Components cluster fairly evenly across structural, behavioural, and psychological levels, reinforcing the review's central argument that financial well-being cannot be reduced to any one level (e.g., income alone) but instead emerges from the interaction of economic conditions, financial behaviour, and psychological perception.

Measures of Financial Well-being

There are several measures of financial well-being, each with its own strengths and limitations. The most commonly used measures include the Consumer Financial Protection Bureau Financial Well-being Scale (CFPB-FWBS), the Perceived Financial Well-being Scale (PFWBS), and the Financial Capability Scale (FCS).

The CFPB-FWBS (CFPB, 2015) is a 10-item scale designed to measure an individual's financial well-being based on four key aspects: financial security, financial freedom, ability to absorb financial shocks, and progress toward financial goals. This scale is widely used in policy research and financial literacy studies due to its broad applicability and strong psychometric properties.

The PFWBS (Netemeyer et al., 2018) is a multi-item questionnaire that assesses an individual's subjective financial well-being, including financial satisfaction, stress related to finances, and confidence in financial management. It is often used in psychological and economic research to explore the link between financial well-being and mental health.

The FCS (Lerman & Bell, 2006) is a behavioural measure that evaluates an individual's financial skills, such as budgeting, saving, and responsible credit use. This scale is particularly useful in studies focusing on financial literacy and behaviour change interventions.

Analysis Table 3: Comparative Analysis of Financial Well-being Measurement Scales

The three widely used scales differ in what they measure (behaviour, perception, or a composite) and in the research contexts where they are most applicable, as summarized below.

Scale	Developer(s)/Year	Primary Focus	Best Suited Research Context
CFPB-FWBS	CFPB (2015)	Financial security, freedom, shock absorption, goal progress (10-item composite)	Policy research and large-scale financial literacy studies
PFWBS	Netemeyer et al. (2018)	Subjective financial satisfaction, financial stress, confidence	Psychological/economic research on financial well-being and mental health
FCS	Lerman & Bell (2006)	Behavioural financial skills - budgeting, saving, credit use	Financial literacy and behaviour-change intervention studies

Interpretation: No single scale captures all dimensions of financial well-being - CFPB-FWBS is composite and policy-oriented, PFWBS is perception-based and psychologically oriented, while FCS is purely behavioural. This divergence supports the review's call for integrated, culturally sensitive measurement tools rather than reliance on a single instrument.

DISCUSSIONS

This systematic literature review underscores that financial well-being is a multifaceted construct influenced by a combination of objective financial conditions, subjective perceptions, and financial behaviours. While there is no universally agreed-upon definition, common elements consistently emerge in the literature - namely financial control, financial security, autonomy, resilience, and future preparedness. The Consumer Financial Protection Bureau's (CFPB) definition remains one of the most widely accepted frameworks due to its clarity and practical applicability.

Across the reviewed studies, it is evident that financial well-being is not solely determined by income level or wealth accumulation, but rather by how individuals manage and perceive their finances. This distinction is crucial in designing public policy and financial education programs, as financial literacy and behaviour play pivotal roles in shaping one's financial health. Researchers such as Xiao (2014) and Shim et al. (2009) emphasize that subjective financial satisfaction and confidence often serve as better indicators of financial well-being than income or asset measures alone.

The relationship between financial well-being and mental health emerged as a recurring theme. Financial stress, especially due to debt or income instability, can negatively impact psychological well-being, while strong financial control and preparedness can serve as protective factors.

Therefore, financial well-being must be viewed in the broader context of overall life satisfaction and psychological resilience.

Measurement tools such as the CFPB Financial Well-being Scale, the Perceived Financial Well-being Scale, and the Financial Capability Scale offer valuable frameworks for assessing both objective and subjective dimensions. However, differences in measurement focus (behavioral, perceptual, or capability-based) highlight the need for integrated and culturally sensitive tools that can be adapted to diverse populations.

Demographic factors such as age, gender, education, and socioeconomic status also influence financial well-being. For example, young adults may experience financial stress due to student loans and lack of savings, while older adults may struggle with retirement preparedness. This points to the necessity of targeted financial interventions tailored to different life stages and population segments.

Despite significant advancements in understanding financial well-being, gaps remain in the literature, especially concerning longitudinal research, cultural contexts, and the impact of digital financial tools. With the increasing digitization of financial services, future studies must consider how fintech, mobile banking, and AI-driven financial advice affect consumer behaviours and outcomes.

Analysis Table 4: Identified Research Gaps and Directions for Future Research Synthesizing the discussion above, the table below organizes the literature's identified gaps alongside the corresponding future research direction they motivate.

Identified Gap in Current Literature	Implication	Suggested Future Research Direction
Limited longitudinal research	Cross-sectional designs cannot capture how financial well-being changes over the life course	Longitudinal/panel studies tracking financial well-being across life stages
Lack of cultural context in existing frameworks	Western-developed scales (e.g., CFPB-FWBS) may not generalize across informal or non-Western economies	Development of culturally adapted, context-sensitive measurement tools
Underexplored impact of digital financial tools	Fintech, mobile banking, and AI-driven advice are reshaping financial behaviour but are absent from most existing models	Studies examining how digital/fintech adoption affects financial well-being outcomes
Identified Gap in Current Literature	Implication	Suggested Future Research Direction
Insufficient attention to demographic variation	Age, gender, education, and socioeconomic status shape financial stressors differently (e.g., student debt vs. retirement gaps)	Segmented, life-stage-targeted financial well-being interventions and research
Limited focus on economic shocks	Existing frameworks were largely developed outside the context of pandemics, inflation, or global crises	Research on financial well-being resilience during macroeconomic shocks

Interpretation: The gaps cluster around three broad needs - temporal (longitudinal data), contextual (cultural and digital relevance), and distributional (demographic and crisis-sensitive) research - indicating that advancing the field will require methodological diversification rather than incremental refinement of existing cross-sectional, income-based approaches.

CONCLUSION

Financial well-being is a critical component of overall human well-being, encompassing not just the capacity to meet day-to-day financial needs, but also the resilience to handle financial shocks and the freedom to make life-enhancing financial choices. This review has consolidated a wide range of perspectives and research findings, highlighting that financial literacy, responsible financial behaviour, and psychological perceptions of control and satisfaction are central to achieving financial well-being. The multidimensional nature of financial well-being demands holistic approaches in both research and policy-making. Programs aimed at improving financial well-being should go beyond income support and focus on enhancing financial capabilities, encouraging savings and planning, reducing financial stress, and promoting autonomy and confidence in financial decision-making.

The comparative and synthesis tables presented in this review (Tables 1-4) reinforce these conclusions: definitions converge on control, security, and behaviour rather than income alone; components span structural, behavioural, and psychological levels in roughly equal measure; existing measurement scales are complementary rather than interchangeable; and the field's most pressing gaps lie in longitudinal, cultural, digital, and crisis-related research.

Future research should address current gaps by conducting longitudinal studies, expanding into underrepresented populations, and integrating emerging factors such as digital financial behaviours and economic shocks (e.g., pandemics, inflation, global crises). Strengthening the evidence base will enable more effective interventions that contribute not only to individual prosperity but also to broader social and economic stability.

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