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Money matters

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The objective of this dissertation was to enhance the understanding of financial well-being and present novel routes that can improve financial well-being. While policymakers and companies are increasingly interested in improving financial well-being, there is a lack of knowledge on how financial well-being should be defined and measured. In this dissertation, I employed a multidisciplinary and multi-method approach to understanding and improving financial well-being. This approach has enabled me to provide novel insights that contribute to our understanding of financial well-being, how it can be measured, and how it can be improved. Here, I provide a summary of the main findings per chapter.

SUMMARY OF CHAPTERS

Chapter 1 reexamines the understanding of financial well-being by disentangling objective financial indicators and subjective financial well-being. Because consumer finances directly impact spending and choice, understanding consumer financial well-being is relevant for research and practice. Academic research increasingly deems financial well-being as a subjective perception that is only moderately linked to objective indicators of a consumer's financial situation. If this assumption holds, it is problematic for companies and organizations who aim to improve financial well-being and who generally have data reflecting objective indicators of financial well-being but cannot directly assess their customers' subjective sense of financial well-being. I challenge the assumption that objective and subjective financial well-being are only moderately correlated and argue that the current measures and data sources are insufficient to study the influence of an individual's objective financial situation on their subjective sense of financial well-being. In this chapter, I use Dutch tax registry data to measure objective financial indicators (e.g., income, wealth, and debt). I enrich these data with survey data collected by the LISS panel, a nationally representative and randomly recruited sample. I find that, depending on the objective measure used, the association between objective and subjective financial well-being is stronger than the prior consensus in the literature on financial well-being suggests.

In Chapter 2, I focus on consumers for whom objective financial indicators and subjective financial well-being are misaligned. An important assumption in financial well-being research is that subjective perceptions reflect the objective reality of people's financial situations. However, subjective perceptions and objective realities may not necessarily align, and individuals who experience misalignment may be overlooked in

current approaches to studying and improving financial well-being. This chapter conceptualizes and measures the correspondence between objective and subjective financial well-being. Subjective financial well-being is measured using self-report scales on current and future financial well-being, and the objective financial situation is operationalized as the cumulative share of assets and income of a household relative to the population. For 72.3% of individuals, their objective financial situation and assessment of subjective financial well-being remain within one standard deviation from each other. Individual differences can explain for whom non-correspondence is more likely to occur. Materialistic individuals, older individuals, and larger households are likely to have lower subjective financial well-being relative to their objective financial situations. Conversely, optimistic individuals, individuals with greater financial skills, and individuals with lower education levels are likely to have high subjective financial well-being relative to their objective financial situations. The finding that objective and subjective financial well-being do not correspond for specific individuals demonstrates the importance of assessing financial well-being correspondence. This approach enhances our understanding of financial well-being, as it provides insight into consumer heterogeneity in the relationship between objective financial circumstances and subjective perceptions of those circumstances. Furthermore, the chapter provides insights into potential routes for improving financial well-being correspondence.

In Chapter 3, I bridge the customer and retirement engagement literature to understand how to improve engagement with complex and utilitarian services that are relevant to long-term financial well-being. In the last decade, customer engagement has become a key concept in service research. While the engagement literature has gained significant traction and is maturing, studies have predominantly focused on hedonic consumption contexts, such as social media platforms or brand communities. Therefore, existing research knowledge on engagement does not necessarily hold in more utilitarian settings, such as banking, investing, or retirement planning, where greater customer engagement could increase societal and individual well-being. To expand the engagement research coverage to utilitarian settings, this chapter a) identifies assumptions in engagement research that need revising and b) provides systematic guidelines for future research. I contrast existing engagement research with empirical findings from the retirement planning literature—an example of a typical utilitarian service setting. As its main contribution, this

chapter problematizes engagement research's current premises and demonstrates that engagement assumptions are not necessarily generalizable across contexts. This chapter offers guidelines for moving the engagement field forward and shifts its applicability domain, arguing that the engagement literature should address customer well-being rather than firm-focused outcomes. The chapter also advances retirement planning research by demonstrating how the lack of engagement in utilitarian service contexts could be alleviated.

Chapter 4 studies differences in adult financial well-being based on variations in childhood cognitive ability. This chapter challenges the traditional view of the relationship between cognitive ability and financial well-being by empirically analyzing the functional form of this relationship in a large longitudinal study (the British Cohort Study). In this chapter, I investigate the extent to which cognitive ability is associated with financial well-being over time. Specifically, I look at debt, wealth, and subjective financial well-being. Previous research has established a correlation between cognitive ability and financial well-being but implicitly assumes a linear relationship. My analyses indicate that most relationships between cognitive ability and financial variables are indeed monotonic. However, I also observe non-monotonic relationships, particularly for credit usage, which suggests a curvilinear relationship that follows an inverse U-shape. This means that individuals with lower and higher cognitive abilities have less debt than do individuals with average cognitive abilities. The inverse U-shape pattern is consistent for total debt, credit- and store-card debt, and debt after excluding student loans. Whereas I am not able to assess the mechanism behind this pattern, I suggest that differences in a lack of access to resources on the one hand, and a lack of a need for resources on the other hand, may explain this shape. Using childhood cognitive ability as a measure facilitates an accurate representation of cognitive ability as it is relatively stable over the life course. By measuring childhood cognitive ability, I can control for childhood and parental economic characteristics, which enables me to study the relationship more precisely between childhood cognitive ability and adult financial well-being. I provide a more accurate estimate of the unique impact of cognitive ability by testing whether the effect of cognitive ability on adult financial outcomes is driven merely by income differences. I not only assess to what extent cognitive ability explains adult financial outcomes but I also show that cognitive ability has explanatory power beyond income. This chapter's findings show that assessing heterogeneity in financial outcomes is important because the functional form of the

relationship between cognitive ability and financial well-being depends on the type of studied outcome.

Chapter 5 uses experimental research methods to develop an intervention to increase saving rates, which are an important determinant of future financial well-being. Many individuals face saving deficiencies despite existing saving interventions. Financial service providers now employ interventions with evaluative structures—which have previously been successfully used in medical and nutrition domains—to aid in saving decisions, such as selecting a pension contribution rate. However, so far, it is unclear whether the use of evaluative structures in the savings domain helps or hinders saving. In a series of three experiments, I assess how evaluative labels describing expected future financial outcomes (e.g., moderate or comfortable lifestyles) and consumption baskets (consumption possibilities per expected future financial outcome) affect saving decisions. I find that both types of evaluative structures increase saving rates and that mental imagery mediates consumption baskets' effects on saving rates. However, evaluative structures are only effective when the decision-maker finds the described future possibilities attractive, and they come with the side effect of anchoring to the saving rates associated with reaching the next upward category. Additionally, their effectiveness is not moderated by trust in pension institutions or patience; rather, it depends on people's starting saving rates and financial literacy. Overall, evaluative structures are helpful in reaching higher savings rates, and my results generate implications for their implementation in field settings.