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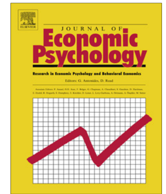

Personality and young adult financial distress

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ABSTRACT

Researchers have become increasingly interested in understanding the sources of heterogeneity in individual financial behaviors. In this paper, we examine how the Big Five personality traits are related to measures of young adults' financial distress. Using data from the National Longitudinal Study of Adolescent to Adult Health in the United States, we find that conscientiousness is negatively correlated, and neuroticism positively correlated with financial distress. These correlations are robust to controlling for early life background and other demographic and socioeconomic factors. Young adulthood sets the stage for financial security in later life; as such, this study provides insight for lifelong financial wellbeing. Based on the empirical results, we discuss potential behavioral and policy interventions that can be used to improve financial wellbeing.

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1. Introduction

Social scientists have long been interested in the determinants of financial well-being of individuals. In nearly any study of financial behavior or outcomes, from retirement planning to wealth accumulation, there is substantial cross-sectional variation that is not explained by standard demographic or economic variables. Although social scientists may never be able to decompose individual fixed effects fully into all their constituent parts, it is important to better understand the source of individual variation in financial behavior and outcomes so that we can better determine the extent to which they can be altered by behavioral and policy interventions to improve financial well-being.

In this paper, we explore how personality traits, which are defined as the relatively enduring patterns of thoughts, feelings, and behaviors that develop with time and age and are elicited in trait-relevant situations (Roberts, 2009), explain individual differences in financial distress in young adulthood. Young adulthood is a time when many important financial decisions are being made for the first time. The financial behaviors and psychological traits established in young adulthood have general implications because they extend throughout adulthood into later life and set the stage for lifelong financial outcomes (Eccles, Ward, Goldsmith, & Arsal, 2013). Specifically, we examine indicators of financial distress such as missing utility bills, losing phone service, missing mortgage or rent payments, being insolvent, worrying about food depletion, and using public assistance. We also aggregate these indicators into a composite measure of financial distress. All these types of financial distress can occur based on inadequate income as well as weak cash-flow management behavior (Eccles et al., 2013). Successful financial management requires one to formulate and implement a financial plan (Yao & Xu, 2015), resist temptation (Gathergood, 2012; Gul & Pesendorfer, 2004; Thaler & Shefrin, 1981), and deal with social comparison (Brown & Laschever, 2012; Bursztyn, Ederer, Ferman, & Yuchtman, 2012). Financial management often manifests as specific behaviors,

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such as paying bills on time, saving money for future inevitabilities such as emergencies and retirement, and avoiding too much debt (Brown & Taylor, 2014).

Our research builds on previous literature in psychology and economics documenting the predictive power of personality traits on major socioeconomic outcomes including earnings, wealth accumulation, schooling, occupational attainment, mortality and divorce (Bowles, Gintis, & Osborne, 2001b; Duckworth, Weir, Tsukayama, & Kwok, 2012; Heckman, Stixrud, & Urzua, 2006; Letkiewicz & Fox, 2014; Lundberg, 2013; Roberts, Kuncel, Shiner, Caspi, & Goldberg, 2007). Our study is one of the first to extend this line of research to the relation of personality traits to behavioral inputs to economic well-being in the form of indicators of financial distress in young adulthood.

The standard economic predictors of financial outcomes typically include factors such as socioeconomic background, education, and cognitive ability. In moving beyond these standard predictors, there are a multitude of options including broad and narrow personality traits, motivations, and life narratives (McAdams & Pals, 2006; Roberts, 2006). We chose to focus on personality traits, and in particular the Big Five, as predictors of financial behavior for three reasons. First, financial management behaviors to the extent that they reflect broader themes of planfulness, impulse control, and persistence, are clearly linked at a conceptual level to personality traits such as conscientiousness (Roberts, Lejuez, Krueger, Richards, & Hill, 2014).

Second, we chose to focus on personality traits because unlike other potential domains, much work has gone into organizing and structuring trait domains into a more generalizable taxonomy. The ideal organizing structure for personality traits is still a matter of debate with some proposing five factors (John, Naumann, & Soto, 2008) and others a six-factor solution (Ashton & Lee, 2007). Nonetheless, the Big Five have been used widely in both concurrent and longitudinal studies (e.g., Fletcher, 2013b; Hill, Turiano, Mroczek, & Roberts, 2012; Roberts, Jackson, Duckworth, & Von Culin, 2011) and provides an excellent starting point for the investigation of factors beyond the standard economic predictors that might predict financial distress. The Big Five includes conscientiousness, emotional stability/neuroticism, extraversion, agreeableness, and openness to experience. Conscientiousness reflects the tendency to work hard, control one's impulses, be organized, and follow through with obligations (Roberts et al., 2014). Neuroticism refers to the tendency to experience excess worry, depression, anger and distress (John et al., 2008). Extraversion is "an orientation of one's interests and energies toward the outer world of people and things rather than the inner world of subjective experience, characterized by positive affect and sociability" (VandenBos, 2007); agreeableness represents "the tendency to act in a cooperative, unselfish manner" (VandenBos, 2007). Finally, openness to experience represents "the tendency to be open to new aesthetic, cultural, or intellectual experiences" (VandenBos, 2007).

A third reason to focus on personality traits is their breadth and generality. While narrow traits can often be used to maximize prediction of outcomes, they sometimes come with a cost. For example, confidence in one's ability to perform well in mathematics predicts mathematics performance quite well, but not outcomes from other, more disparate domains (Trautwein, Lüdtke, Roberts, Schnyder, & Niggli, 2009). In contrast, a trait such as conscientiousness, because of its generality, not only predicts mathematics performance, but also performance in other domains such as in language arts (Trautwein et al., 2009). Personality traits are also generalizable across the life course, such that they exist even in the absence of the outcome of interest, such as in the present study, which is financial distress. For example, it would be difficult to measure financial planning in young children as they are seldom afforded the opportunity to handle and manage money. On the other hand, the Big Five personality traits have been measured and identified across the life course and can therefore be used before the outcomes of interest, such as financial difficulties have even been considered (e.g., Moffitt et al., 2011). Another advantage of the generality of the Big Five personality traits is that they have been widely used and are therefore a common scientific vernacular for not only understanding the processes of human functioning, but also for organizing disparate scientific findings and literatures (Roberts et al., 2011).

Although the examination of the association of the Big Five to a wide range of financial outcome measures in a representative sample is uncommon, each of the Big Five has been linked to broad financial outcomes that are related to the outcomes considered here. For example, all of the Big Five have been shown to predict salary (Roberts et al., 2011). In a meta-analysis of prospective longitudinal studies, conscientiousness, extraversion, and openness predicted higher salaries and both neuroticism and agreeableness lower salaries (see also, Heineck, 2011). A similar pattern of associations was found in the Household, Income and Labor Dynamics in Australia (HILDA) sample when predicting household income (Boyce, Wood, & Powdthavee, 2013). Moreover, conscientiousness was also associated with higher levels of wealth accumulation in the Health and Retirement Study (Duckworth et al., 2012). Conversely, several of the Big Five show prospective associations to patterns of unemployment. Conscientiousness was associated with finding a job faster after becoming unemployed and in experiencing a shorter duration of unemployment, whereas neuroticism predicted the opposite (Uysal & Pohlmeier, 2011). Openness appeared to have a more complex relation to unemployment, with one study showing a shorter duration for those willing to move (Uysal & Pohlmeier, 2011) and a second study showing higher cumulative rates of unemployment for those who were more open to experience, possibly because of the types of jobs they pursued, such as artistic careers, which are less stable (Viinikainen & Kokko, 2012).

In terms of outcomes more closely associated with those considered in this study, which focuses primarily on ones indicative of financial distress, there are few related studies. In a longitudinal prospective study of Iowans, adolescent conscientiousness predicted lower rates of economic pressure in young adulthood (Donnellan, Conger, McAdams, & Neppl, 2009). Unfortunately, this study did not report associations between personality and financial distress for the remaining Big Five. Moreover, their single composite measure of economic pressure used "household indices of economic hardship" for 438 participants, a sample that is small and not nationally representative. Just recently, the association between the Big Five and

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