

Financial well-being: What it means and how to help

Understanding financial well-being is crucial to helping consumers achieve it.

Financial educators, coaches, and other practitioners work to help people improve their financial lives and get to a better state of financial well-being. To tell whether these efforts are successful, the field needs a reliable definition of personal financial well-being. Read the full report at consumerfinance.gov/reports/financial-well-being.

Consumer-driven definition of personal financial well-being

The CFPB's research team listened to people around the country talk about what financial well-being means to them. With this input, we can now share the first-ever definition of financial well-being created directly out of the voices of consumers. Consumers can experience financial well-being—or a lack of it—regardless of income. It's a highly personal state, not fully described by objective financial measures. Instead, well-being is defined as having financial security and financial freedom of choice, in the present and in the future.

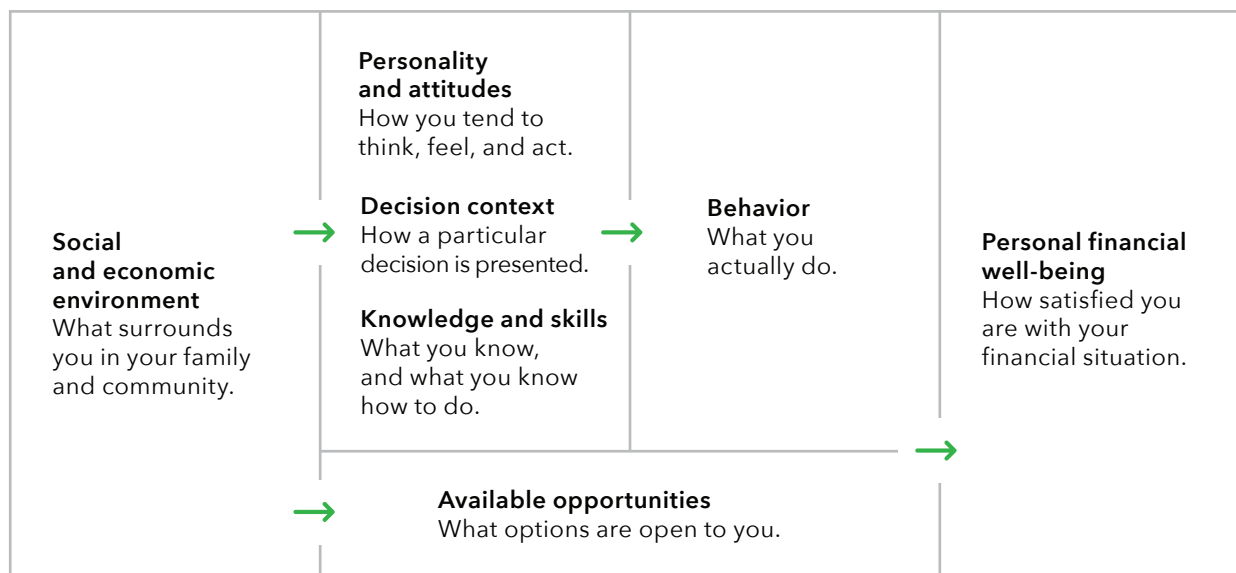
The four elements of financial well-being

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

Factors that create financial well-being

We interviewed consumers and financial professionals to hear about how people experience financial well-being. Then, we analyzed existing studies of financial literacy, psychology, decision making, and related fields. Together, the information helped us create the visual guide below, outlining the factors that lead to a person's financial well-being at a specified moment.

What influences financial well-being



People work to make the most of their own situation

The diagram above acknowledges that at any given time, some factors of financial well-being are within a person's control, and some aren't.

Social and economic environment can expand or limit a person's opportunities. For example, some employees are offered a retirement plan at work, while others aren't. Then, the decision context the person encounters can make a difference in what action he or she takes. For example, some employers require workers to opt in to a retirement plan, while others make participation automatic and allow employees to opt out.

Financial behavior is also guided by personality, attitudes, knowledge, and skills. The actions consumers take, within the options available to them, create their level of financial well-being.

Practitioners can help in key areas

Research on financial well-being is ongoing. In the meantime, the current study suggests ways that practitioners can continue to work with consumers to improve their well-being.

BALANCE: LIVE WITHIN THEIR MEANS

Financial practitioners can help people develop sound habits and make conscious adjustments in day-to-day money management:

- Practice contentment and cut down mindless spending
- Stay out of debt and use credit responsibly when it's needed
- Act like an entrepreneur in generating income and avoiding interruptions in paid work

ASK: GATHER INFORMATION AND EVALUATE THE RESULTS

Financial practitioners can help people ask good questions, find facts, and apply them effectively:

- Identify situations when they need financial information
- Explore how to get trustworthy information
- Decide what choice makes the most sense for them

PLAN: FOCUS ON THE FUTURE

Financial practitioners can help people connect their aspirations for the future to concrete plans:

- Identify specific, realistic goals
- Make step-by-step plans to reach those goals
- Feel confident about their ability to make a difference in their own lives

ACT: SET THEMSELVES UP FOR SUCCESS

Financial practitioners can help people carry out their decisions consistently:

- Figure out how to take the steps needed to put decisions into action
- Determine how to motivate themselves to take those actions
- Take advantage of existing ways—from auto-pay to peer support—to simplify staying on track