Personality and Young Adult Financial Distress

YILAN XU, ANDREA H. BELLER, BRENT W. ROBERTS, AND JEFFREY R. BROWN

Key Findings and Policy Implications

This paper examines how the Big Five personality traits are related to measures of young adults’ financial distress. The Big Five include conscientiousness, emotional stability/neuroticism, extraversion, agreeableness, and openness to experience. The paper uses data from the National Longitudinal Study of Adolescent to Adult Health. Key findings include:

- Conscientiousness is negatively related to all six measures of financial distress. A one-standard deviation increase in conscientiousness reduces the likelihood of missing utility bills by 3.8 percent, losing phone service by 1.8 percent, missing rent or mortgage payments by 1.9 percent, being insolvent by 2.8 percent, worrying about no food by 2.5 percent, and being on welfare by 1.9 percent. It also lowers the aggregate indicator of financial distress by 18 percent (at the sample mean).

- Neuroticism is positively related to all six measures of financial distress. A one-standard deviation increase in neuroticism raises the likelihood of missing utility bills by 2.8 percent, losing phone service by 2.2 percent, missing a mortgage/rent payment by 2.0 percent, being insolvent by 1.9 percent, worrying about no food by 3.5 percent, and being on public assistance by 2.7 percent. It raises the aggregate indicator of financial distress by 18 percent (at the sample mean).

- The remaining Big Five – extraversion, agreeableness, and openness to experience – are only correlated with selected measures of financial distress. To the extent there were significant effects, more extraverted young adults were less likely to experience financial distress, while the more agreeable or more open to experience ones were more likely to go through financial distress.

The findings contribute to public policies aimed at improving the welfare of senior citizens. One’s preparedness for retirement is, to a large extent, pre-determined by the range of financial decisions made earlier in life. The research suggests that policy can be used to better target behavioral interventions, or “nudges,” to be most effective for sub-populations that differ along personality-based dimensions.

YILAN XU is an Assistant Professor at University of Illinois at Urbana-Champaign.

ANDREA H. BELLER is Professor Emerita at University of Illinois at Urbana-Champaign.

BRENT R. ROBERTS is a Professor of Psychology in the Department of Psychology at the University of Illinois, in the Social-Personality-Organizational Division.

JEFFREY R. BROWN is the William G. Karnes Professor of Finance at the University of Illinois at Urbana-Champaign, Associate Director of the NBER Retirement Research Center, and an NBER Research Associate.

Complete RRC Working Papers are available on our website: http://www.nber.org/aging/rrc/papers/

This research was supported by the U.S. Social Security Administration through grant #RRC08098400-07 to the National Bureau of Economic Research as part of the SSA Retirement Research Consortium. The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the Federal Government, or the NBER.