Financial Check-up: What Determines the Boomers' Financial Well-Being?

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Abstract : The purpose of the study was to examine the determinants of financial well-being of the baby boomers. With data on 1,789 households from the 1998 Survey of Consumer Finances, the study provided a profile of baby boomers using demands, resources, financial attitudes, and financial practices. The descriptive statistics showed that 18% of the baby boomers were financially well off showing that they met the guidelines for two financial ratios: liquidity and solvency ratio.

The results of logistic analysis on the measures of financial well-being revealed that financial management practices played an important role in predicting boomer's financial well-being. This suggested a positive approach of financial education to the baby boomers to help them manage their current finance well as well as prepare for their retirement.

Key Words : Financial well-being, Baby boomer, liquidity and solvency ratio

I. Introduction

A cohort is "a group of people born during a given time period who share the same historic events and many of the same life experiences, including tastes and preferences (Meredith & Schewe, 1994)". In the U. S., the population was divided into five number of birth cohorts. Among the cohorts, the baby boomers are the largest birth cohort, comprising of one third of the U.S. population (DeVaney, 1995; Korczyk, 2001; Sullivan, Warren, & Westbrook, 2000). The baby boomers were born between 1946 and 1964 and as a cohort, they share the same historic events and many life experiences. For example, baby boomers went through the Vietnam conflict, and the Watergate scandal, and an economic prosperous period. These events may have resulted in differences in values, preferences, and attitudes compared to other cohorts. With regard to their personal finances, they have been described as a 'spend, spend, borrow, and spend' generation. In general, the boomers tend to be willing to take risks, are less cautious, have less savings, but more

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have debt compared to the previous generations (Meredith & Schewe, 1994).

The aging of this large cohort has drawn considerable attention from policy makers, the media, and researchers. As a result, many studies and reports have focused on examining the consequences of their aging and retirement preparation (e.g. DeVaney, 1995; Gale, 1997; O' Neill, 2000). Even though some of the baby boomers are approaching retirement, they still have time to prepare financially for their later life. According to the life-cycle hypothesis, baby boomers are anticipated that they save relatively more since most of them are in their middle age, but an empirical analysis indicated that their behavior was the opposite of the expectation (Meredith & Schewe, 1994). In addition, a national bankruptcy study reported that about half of all bankrupt debtors were baby boomers (Sullivan, Warren, & Westbrook, 2000). These results imply that the baby boomers might encounter difficulties in dealing with their current financial affairs as well as their retirement preparation. Therefore, it is critical to evaluate the baby boomers' current financial status, which should be done before discussing their retirement, and to identify the factors related to their financial well-being.

Research examining the financial well-being of the baby boomers is limited. Moreover, most previous research related to financial well-being has examined one side of the balance sheet such as the amount of savings or debts, which was insufficient for evaluate financial well-being. Therefore, the proposed study attempts to construct a measure to examine the financial well-being of baby boomers and to identify factors affecting financial well-being of the boomers. The purposes of this study are to profile the financial well-being of the baby boomers including their financial attitudes and financial management practices, and socio-economic characteristics, and to examine the factors affecting financial well-being of the baby boomers. The results will allow policy makers, financial counselors, and financial educators to have a better understanding of the financial health of the baby boomers and will provide information that can help the boomers manage their current financial affairs better, as well as prepare financially for their later life.

II. Literature Review

1. Conceptual Framework

Deacon and Firebaugh's (1988) family resource management model has been used in studying financial management and financial well-being literature as a conceptual framework. Consisting of three main concepts: inputs, throughputs, and outputs, several modified versions of the model have been examined. According to this model, inputs include demands and resources such as age, education, income, and other kinds of human and financial resources. It also includes knowledge and attitudes toward planning and implementing. Throughputs include planning and implementing of financial management, for instance, budgeting, saving and spending behavior, and credit use. The third component, outputs, is the outcome of the throughput and input process, such as changes in resources or satisfactions.

The Deacon and Firebaugh family resource management model explained that both inputs and throughputs affected outputs but the structure of the model appeared that inputs had an indirect effect through throughputs and throughputs had a direct effect on outputs. However, many of the previous empirical studies showed a direct relationship of inputs to outputs (Fitzsimmons & Leach, 1994). Therefore, in this study, a modified model of the family resource management suggested by previous study was applied to investigate the factors affecting boomers' financial well-being. Based on the model, independent variables were selected. Finally, the outputs, the financial well-being, in the model will be affected by the components of inputs (i.e., demand and resources) and throughputs (i.e., attitude and management practices).

Based on the Family Resource Management model and the previous studies, the conceptual framework of this study is stated as follows:

Financial well-being = f (demand, resources, financial attitudes, management practices)

Demand includes age, number of children, and marital status; resources includes education, income, net worth, homeownership, and employment status; financial attitude includes attitudes toward credit, and attitudes toward risk; and financial management includes shopping for credit / investment, credit use, saving and spending behavior.

2. Related Literature

Financial Well-being. A household financial well-being has been examined in several ways. Some studies used net worth (e.g., Fitzsimmons & Leach, 1994; Godwin, 1994; Titus, Fanslow, & Hira, 1989) and others examined amount of savings or the level of debt as an indicator of financial well-being (e.g., Baek, Zhou, & Hong, 2000; Chang, 1994; Hefferan, 1982). Using data on 256 newly married couples, Godwin (1994) examined factors related to the level of net worth. The results showed that income, number of sources of income, and feelings of control had a positive influence on net worth, but record-keeping was negatively related to net worth. Titus, Fanslow, and Hira (1989) found that age, income, and the level of financial planning were positively related to the level of net worth, but household size had a negative impact on the level of net worth.

There have been several efforts to examine the amount of saving or the level of debt. The amount of saving has been examined as a measure of financial well-being (e.g. Chang, 1994; Hefferan, 1982). Some recent studies focused on examination of the level of debt to describe households' financial situation as more people obtain access to credit and the level of debt is getting higher than before (e.g. Baek, Zhou, & Hong, 2000; Godwin, 1998). The results of these studies confirmed that socio-economic variables were important predictors, e.g. income, net worth, education, household size, and employment status. Although several studies included attitudes and expectation variables, the financial management practices were not thoroughly examined in predicting financial well-being.

Even though these studies provided information about net worth, savings or debt, they did not provide a comprehensive understanding of

financial well-being of households. Consequently, the use of financial ratios has been adapted to assess financial well-being of households. Financial ratios were widely suggested as a measure of financial well-being (e.g. DeVaney, 1993; DeVaney, 1994; Greninger, Hampton, Kitt, & Achacoso, 1996) and a starting point of analysis of financial well-being (Bae, Hanna, & Lindamood, 1993). A number of studies have utilized financial ratios to assess financial status of households including the adequacy of emergency fund holding and insolvency (e.g. DeVaney, 1994; Ding & DeVaney, *2000*; Chang, Hanna, & Fan, 1997). Previous research has shown that the financial ratios were useful to predict household insolvency, or to examine comprehensive financial status at a given period as well as changes of the status over time (Garman & Forgue, 2000). Thus, this study applies the financial ratio approach to examine financial well-being of the baby boomers.

Financial Well-being of Baby Boomers. Research on financial well-being focused on the baby boomers was very limited. The financial well-being of the baby boomers has recently drawn attention from researchers, and the previous research on baby boomers has dealt mainly with retirement issues. Gale (1997) examined the retirement preparation of baby boomers based on a total-resources analysis. He found that one-third of the baby boom cohort was well prepared and one-third of them were not prepared at all. Little earlier, DeVaney (1995) examined factors predicting retirement preparation of older and younger cohorts of the baby boomers. Using the 1989 Survey of Consumer Finances, DeVaney found that being white and the expectation of an inheritance had positive influences on retirement preparation of younger baby boomers, while being male, pension coverage, and good health were found to be important predictors of retirement preparation for older baby boomers. In addition, education and home ownership were significantly related to retirement preparation for all boomers. Although retirement preparation is important, many of the boomers are still in their middle age and the current financial health is important to prepare for the later life; thus, this study examined the baby boomers' financial well-being focused on their current financial status.

3. Hypotheses

The baby boomers were hypothesized to be better off, if they were older, had fewer dependent children, and were married compared to baby boomers who were younger, had fewer dependent children, and were non-married. With regard to resources, it was hypothesized that baby boomers would be better off if they had a higher level of education, were employed, had higher levels of both income and net worth, and were home owner than baby boomers who had less than a high school education, were unemployed, had less income and net worth, and were renters. It was hypothesized that baby boomers who had a negative attitude toward credit and those who would take average risk would be better off compared to baby boomers who had a positive attitude toward credit, and would take too much risk or no risk. In terms of financial management practices, baby boomers were hypothesized to be better off if they searched a lot for the information

on credit or investment when they made a decision, had fewer credit cards, paid off their total credit card balances, planned for the future expenses, had regular saving habits, and spent less than their income, compared to those who did not search for the information on credit or investment, had more credit cards, hardly ever paid off their total credit balances, did not planned for future expenses, did not save, and spent more than their income.

III. Methodology

1. Data and Sample

The study used the 1998 Survey of Consumer Finances (SCF) to examine financial well-being of baby boomers. Sponsored by the Board of Governors of the Federal Reserve System, this survey contains comprehensive information on U.S. households' financial status. The SCF incorporates two random sampling techniques, consisting of a standard multistage area-probability sampling and an over sampling of wealthy households from IRS tax files. Since the SCF contains a disproportionate number of high income households, a weight is employed to combine information from the two samples. (Kennickell, Starr-McCluer, & Surette, 2000).

The sample for this study is based on the 1,789 households headed by baby boomer out of the total 4,305 households in the 1998 SCF. This represents 41.39% of the whole sample. The baby boom households were selected based on the household head' s age between 34 and 52 years old in 1998 to include households headed by baby boom generation, born between 1946 and 1964 (Korczyk, 2001).

2. Measurement of Variables

Dependent Variables. The study used two financial ratios, liquidity ratio and solvency ratio, to assess financial well-being, not only because the solvency ratio is an overall measure of financial status (DeVaney, 1993), but also because the two ratios are suggested as a basic criteria to be considered "financially healthy" households (e.g. DeVaney & Lytton, 1995; Greninger, Hampton, Kitt, & Achacoso, 1996).

If the household met both guidelines (liquid assets / monthly income=> 2.5 for the liquidity ratio and total assets / total debt >1 for the solvency ratio), then the household was regarded as a financially healthy household. Any zero values for monthly income or total debt were converted to one in order to calculate a ratio value. In summery, financial well-being was measured as 1 if the household met both ratio guidelines, and 0 if otherwise.

Independent Variables. Based on the conceptual framework and previous studies, four groups of independent variables were included: demand, resources, financial attitudes, and financial management. Age was measured by the household head's age in years. Number of children was the number of children under 18 years old. Marital status was measured 1 if married, 0 if otherwise. Education was the household head's education attainment and measured with four categories: less than high school, high school, some college, and college degree or higher. Employment status

represented the household head's employment status; 1 if employed, 0 if otherwise. Income was measured by the household's gross income. Net worth was total assets minus total liabilities. Home ownership was measured as 1 if home owner, 0 if otherwise. Shopping for credit and shopping for investments were measured as ordinal variables to measure whether households shopped around or not when they made major decisions for credit or borrowing, and also for saving or investment. Number of credit cards was a continuous measure. The payment practice of credit card balances had three categories: always payoff their balances, sometimes, and hardly ever payoff the balances. Planned saving for future expenses was measured as 1 if the household saves for expected future major expenses, 0 if otherwise. Two questions about saving habit, 'don't save' and 'save regularly', were coded as 1 if yes, 0 if otherwise. Level of spending was corded as spending exceeds income, spending is equal to income, and spending is less than income. <Table 1> shows the measurement of variables.

3. Data Analysis

The characteristics of baby boom households were profiled using descriptive analyses such as mean and percentages. The sample was weighted to represent the general U.S. population. Due to the binary nature of the dependent variable, a logit analysis was used in predicting whether the household met the criteria of financial well-being (Kennedy, 1998).

IV. Results

1. The Characteristics of Baby Boomers

<Table 2> presents the characteristics of baby boom households. Forty one percent of the whole sample of the 1998 SCF were headed by baby boomers. The descriptive statistics showed that about 18% among baby boomers were financially well off according to the indicator. The average age of the household head was 43 years old, and 58% of baby boomers were married with, on average, one child. The household head of the baby boomers were well educated with more than 36% holding a college degree or an advanced degree. More than 86% were employed. As Korczyk (2001) mentioned, the baby boom generation had higher college enrollment rates than any previous generation. In terms of economic resources, the average income was $61,161. The average net worth was $ 240,935. Around 67% were home owners. Attitudes toward credit were almost evenly distributed among baby boomers. Sixty-nine percent of the baby boomers were average or above average risk takers when they made a saving or investing decision. Baby boomers did a moderate amount of shopping when they make major decision of credit or investment. The baby boomers had more than one credit card, and more than one third were convenient users, while 24% were hardly ever payoff their total credit card balances. Thirty-three percent had planned saving for future expenses, and forty three percent save regularly. Less than twenty percent reported that spending exceeded their income.

<Table1> Measurement of Variables

Variables	Measurement
Dependent Variables	
Financial well-being	1 if liquidity ratio ≧2.5 and solvency ratio>1, 0 if otherwise
Independent Variables	
Demands	
Age	Household head's age in years
Number of children	Number of children in the household
Marital status	1 if married, 0 if otherwise
Resources	
Education	
Less than high school (<12)	1 if yes, 0 if otherwise
High school (=12)	1 if yes, 0 if otherwise
Some college (13-15)	1 if yes, 0 if otherwise
College degree or higher (16+)	1 if yes, 0 if otherwise
Employment Status	1 if employed, 0 if otherwise
Income ($)	Gross income
Net worth ($)	Total assets - total debt
Homeownership	1 if owner, 0 if otherwise
Financial Attitudes	
Attitude toward credit	
Positive	1 if it's a good idea; 0 if otherwise
Neutral	1 if it's a good in some, bad in some; 0 if otherwise
Negative	1 if it's a bad idea; 0 if otherwise
Attitude toward risk	
High risk taking	1 if take risk above average, 0 if otherwise
Average risk taking	1 if take average risk, 0 if otherwise
No risk taking	1 if take no risk, 0 if otherwise
Financial Management	
Shopping for credit	1= almost no shopping, 5= a great deal of shopping
Shopping for investment	1= almost no shopping, 5= a great deal of shopping
Number of credit cards	Number of credit cards
Payment practices of credit card	
Always payoff the balances	1 if always pay off the total balance, 0 if otherwise
Sometimes payoff the balances	1 if sometimes pay off, 0 if otherwise
Hardly ever payoff the balances	1 if hardly ever pay off, 0 if otherwise
Planned saving for future expenses	1 if save for expected major expenses, 0 if otherwise
Saving habits	
Don't save	1 if yes, 0 if otherwise
Save regularly	1 if yes, 0 if otherwise
Spending pattern	
Exceed income	1 if spending exceed income, 0 if otherwise
Equal to income	1 if spending equal to income, 0 if otherwise
Less than income	1 if spending less than income, 0 if otherwise

<Table 2> The Characteristics of Baby Boomers (N=1789) in the 1998 SCF (Weighted)

Variables	Baby boomers	
	Mean (SD)	Percentage
Financial Well-being		18.27
Demand		
Age	42.85 (5.36)	
Number of children	1.07 (1.20)	
Marital status		
Married		58.27
Non-married		41.73
Resources		
Education		
Less than high school (<12)		13.37
High school (=12)		28.73
Some college (13-14)		21.42
College degree or higher (15+)		36.48
Employment status		
Employed		86.15
Non-employed		13.85
Income ($)	61,161.27 (82,190.32)	
Net worth ($)	240,935.39 (752,973.51)	
Homeownership		
Owner		66.81
Renter		33.19
Financial Attitudes		
Attitude toward credit		
Positive		32.40
Neutral		34.51
Negative		33.09
Attitude toward risk		
Above average risk taking		28.86
Average risk taking		40.48
No risk taking		30.66
Financial Management		
Shopping for credit	3.25 (1.32)	
Shopping for investment	3.02 (1.37)	
Number of credit cards	1.75 (1.79)	
Payment practices of credit card		
Always payoff the balances		35.10
Sometimes payoff the balances		15.81
Hardly ever payoff the balances		24.46
Planned saving for future expenses		37.24

<Table 2> Continued

Variables	Baby boomers	
	Mean (SD)	Percentage
Saving habits		
Don't save		14.25
Save regularly		43.34
Spending pattern		
Exceed income		19.74
Equal to income		38.44
Less than income		41.82
Total	41.39 %	

2. Factors affecting Financial Well-being

The results of logit analysis on the measure of financial well-being are shown in <Table 3>. The age of the household head, income, and net worth were found to be significant. The households headed by older baby boomers were more likely to meet the guideline of financial well-being. Consistent with Titus, Fanslow, and Hira (1989), older households were more likely to be financially well off than younger households among the baby boomers.

Income was negatively related to the probability of meeting the criteria of financial well-being. The results did not support the hypothesis, but Fizsimmons and Leach (1994) obtained a similar result, showing that a positive change in income was negatively related to net worth. This result might be derived from the liquidity ratios in financial well-being measure, even though it is one of the important indicators and basic guideline of financial well-being. Because a study on emergency fund holding, Ding & DeVaney, (2000) suggested that high income consumers did not want to hold their assets in low return, low risk liquid assets. In addition, as Hatcher (2000) noted, an emergency fund was highly recommended to those with high borrowing cost and high risk aversion. Thus, considering the sample, the baby boomers, the combination of their attitudes and relatively high income might generate a negative relationship between income and financial well-being. As hypothesized, net worth was positively associated with the financial well-being of the baby boomers.

Attitude toward risk was significant, showing that average risk takers were more likely to meet the guideline of the financial well-being indicator than above average risk takers. This was comparable result to Baek, Zhou, and Hong (2000), indicating that average risk takers had a lower level of consumer debt. As search for information on saving or investment increased, the baby boomers were more likely to be well off. Payment practices, saving habits, and spending pattern were all significantly related to the financial well-being of the baby boomers. Compared to the households who hardly ever paid off their credit balances, the households who always paid off their

<Table 3> Logit Results of Financial Well-being (N=1789)

Variables	Estimate	Standard Error	P-value	Odds Ratios
Demand				
Age	0.043	0.013	0.001 **	1.044
Number of children	0.011	0.060	0.852	1.011
Marital status				
Married (Non-married)[a]	-0.314	0.160	0.050	0.730
Resources				
Education				
High school	0.385	0.309	0.213	1.470
Some college	0.492	0.317	0.120	1.636
College degree or higher	0.275	0.308	0.371	1.316
(Less than high school)				
Employment Status				
Employed (Unemployed)	0.125	0.232	0.590	1.133
Income	-2.19E-6	4.232E-7	0.000 ***	1.000
Net worth	1.925E-7	3.461E-8	0.000 ***	1.000
Homeownership				
Owner (Renter)	0.290	0.172	0.092	1.336
Financial Attitudes				
Attitude toward credit (Negative)				
Positive	0.098	0.155	0.530	1.103
Neutral	0.225	0.150	0.133	1.252
Attitude toward risk				
Average risk taking	0.387	0.138	0.005 **	1.472
No risk taking	-0.124	0.201	0.537	0.883
(Above average risk taking)				
Financial Management				
Shopping for credit	-0.093	0.055	0.088	0.911
Shopping for investment	0.124	0.053	0.019 *	1.132
Number of credit cards	0.018	0.036	0.612	1.018
Payment practices of credit card				
Always payoff the balances	1.067	0.177	0.000 ***	2.907
Sometimes payoff the balances	0.413	0.220	0.061	1.511
(Hardly ever payoff the balances)				
Saving for future expenses	0.199	0.130	0.127	1.220
Saving habits				
Don't save	-1.021	0.338	0.003 **	0.360
Save regularly	0.026	0.137	0.853	1.026
Spending pattern				
Exceed income	0.178	0.227	0.432	1.195
Less than income	0.627	0.170	0.000 ***	1.873
(Equal to income)				
Intercept	-4.944	0.712	0.000 ***	
-2 Log Likelihood		1921.107		
Chi-square		273.971 ***		

Note. * p< .05 ** p<.01 ***p<.001

[a] Reference groups are in parentheses.

total credit card balances were almost three times more likely to be financially well off. The baby boomers who didn't save were less likely to meet the criteria of the financial well-being than those who save. The odds decreased by 64% for those baby boom households. Compared to the baby boomers who spent equal to their income, the baby boomers who spent less than their income were more likely to meet the financial well-being guideline. The odds of meeting the guideline increased by 87% for those who spent less than income.

V. Conclusion and Implications

Using data from the 1998 SCF, this study profiled baby boomers' financial status and identified factors related to their financial well-being. The conceptual model of this study incorporated financial attitude and financial management practices along with demands and resources. The attitude and financial management practices have not been examined thoroughly with a nationally representative data. The results showed that 18% the baby boomers were financially well off when assessing their financial status with two financial ratios: liquidity and solvency ratio. The results indicated that around 40% of the baby boomers had planned saving, saved regularly, and spent less than their income; thus, they were not so careless in terms of financial management practices as expected.

The results indicated that financial management factors were important predictors of baby boomers' financial well-being. Actual financial management practices played more important role to be financially well off for the baby boomers compared to financial attitudes of the boomers. With regard to financial management practices, comparison shopping, payment practices, saving habits, and spending pattern were all related to financial well-being.

Attitude toward risk was found to be a significant factor to predict financial well-being. As the results indicated, average risk taking led to be financially well off. Therefore, an appropriate level of risk tolerance should be advised when the households make decisions. Too much risk taking may result in loss of liquidity for emergencies and effective management of finances. For the baby boomers who are not willing to take any risks, financial planners might suggest several steps to guide them taking some risk to gain a relatively higher return.

From the findings, several implications can be drawn. Although some baby boomers are managing well, there are many who would benefit from education on financial practices. Maintaining a good financial management will help boomers to be financially better off. Second, the study revealed that financial practices were important to meet the indictor of financial well-being, and what kinds of financial management practices affected well-being. Therefore, the results can provide direction to financial educators and planners in designing educational program as well as guidelines for financial planning. For example, financial educators may include risk and return trade off, comparison shopping, credit use and effective credit management, saving plan, as well as budgeting in their program. Third, the baby

boomers are relatively well educated, and have the potential for good financial practices. Thus, if suitable education and planning is presented, they should be able to manage their finance effectively and prepare for their later life. In light of this, financial educators, and financial counselors and planners should prepare to guide this large cohort to be financially well off.

This study suggested one way of measuring financial well-being to be considered as a financially healthy household. Future study might use other combinations such as liquidity and consumer debt ratio, or use investment assets to net worth ratio according to the purpose of the study. Also, for future research, the examination on perceived financial well-being of the households in addition to objective financial well-being would be interesting to compare whether the perceived financial well-being is consistent with the objective financial situation of households. Although the study provided sensible information on financial management practice variables, the examination of financial management practice variables should be continued in the future to assist financial educators to develop a better financial education program. For future research, it would be interesting to compare the baby boomers with other cohorts such as generation X.

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