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REVIEW

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Financial decision making

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Abstract

Financial decisions can have lasting consequences for consumer welfare and other important decisions. This review summarizes contemporary literature on financial decision making vis-à-vis the promotion of financial well-being, outlining work on financial behaviors that contribute to financial well-being, psychosocial determinants of financial well-being, and the role of situational factors in financial well-being. In addition to reviewing recent research, this article draws attention to some open questions in the field and proposes a trajectory for productive pathways of future research.

KEYWORDS

behavioral economics, consumer psychology, financial decision making

1 | INTRODUCTION

All consumers regularly make financial decisions, some of which are consequential and complex. People make choices about whether and how much to save, when to take on and how to repay debt, and how to manage existing financial resources. Consumer financial decision making has recently become a more established subfield of consumer research: Numerous sessions at premier conferences, a stand-alone annual meeting and research center at the University of Colorado, and a special issue of the *Journal of Marketing Research* have coalesced around this topic.

Accordingly, in the present article, our primary goal is to summarize the current literature, providing some structure to the body of prior research and identifying the strengths of this relatively broad field. Given that consumer financial decision making covers a range of themes related to personal finance, we have organized existing literature through the lens of financial well-being. In addition to summarizing existing research, we highlight open questions in the field and make proposals for fruitful avenues of future research.

In what follows, we first provide a review of existing research in consumer financial decision making across three primary areas: financial behaviors that contribute to financial well-being, psychosocial determinants of financial well-being, and the role of situational factors in financial well-being. We close with an extensive discussion about the gaps in the literature and proposals for future directions.

As a field, consumer financial decision making is not always straightforward to define, and lends itself to interdisciplinary inquiry (Lynch, 2011); scholars from marketing, psychology, finance, and economics have studied a variety of related topics. We home in on literature across these fields that relates directly to individual-level (rather than market-level) consumer finance through a psychological lens. Moreover, though much of the existing research we review draws from foundational and classic work in numerous fields, our review places an emphasis on more recent work—primarily from the last decade—to highlight the present trajectory of the field.

2 | FINANCIAL BEHAVIORS THAT CONTRIBUTE TO FINANCIAL WELL-BEING

Consumers make myriad decisions in their daily lives that could be construed as "financial" if such choices involve money. Yet, our approach with this review is similar to Lynch (2011): We classify decisions as financial in nature when they are either explicitly related to financial products, or dramatically affect a consumer's overall financial well-being—whether done once or repeated over time. In this section, we review the literature on substantive financial behaviors that affect financial well-being. In particular, we discuss the promotion of savings, the reduction of consumer debt, and the psychology of budgeting.

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2.1 | The promotion of savings

Sufficient savings is perhaps the most important predictor of financial well-being. Available funds from savings are needed not only to make everyday purchases and avoid getting into debt, but also to make long-term investments. In addition, savings accumulated through labor income provides consumers with income during retirement. Given the insufficiency of Social Security income and questions surrounding the Social Security system's solvency, researchers have suggested that consumers ought to devote large portions of their income to retirement savings during their working years (Munnell, Webb, & Golub-Sass, 2012).

Yet, people often do not save enough to maintain their preretirement standards of living in retirement. In terms of long-term savings, many consumers entering retirement do not have enough money to cover regular living expenses (Benartzi & Thaler, 2013). Importantly, in the short term, one out of three Americans are unable to come up with $2,000 in the case of an emergency (Gupta, Hasler, Lusardi, & Oggero, 2018). Like other determinants of financial health, insufficient savings may not be driven solely by behavior; it may be a result of unfavorable economic conditions, low income, and unexpected hardships in life. But while lack of savings can be attributed to multiple determinants, there are many consumers who could save more than they currently do. In the following section, we discuss the role of framing and goals; leveraging norms, habits, and feelings; and the potential of just-in-time savings in promoting savings behavior.

2.1.1 | Framing and goals

Setting concrete, attainable goals can generally increase the motivation to save (Fry, Mihajilo, Russell, & Brooks, 2008). In line with established work on goals as reference points (Heath, Larrick, & Wu, 1999), framing larger savings goals as smaller subgoals has a motivating effect on saving intentions and behavior. Colby and Chapman (2013) demonstrated in hypothetical choices that people are more likely to forego small discretionary purchases in favor of large savings goals when they have smaller, weekly savings subgoals: When consumers can reframe their larger goals in terms of subgoals, they perceive themselves as more able to attain their goals, and can accumulate higher levels of savings in the long run. In a similar vein, when construal level is high (i.e., when consumers adopt an abstract perspective), specific savings goals make people more confident in their ability to save for an occasion within the following six months (Ülkümen & Cheema, 2011). However, when construal level is low (i.e., when consumers adopt a concrete perspective), specific goals make people anticipate having a lower likelihood of success at achieving the goal. The reversal in the effect of goal specificity on anticipated savings success arises because high construal bolsters the perception of goal importance while low construal increases the perception of goal difficulty.

Along similar lines, *earmarking*—that is, setting aside a separate "account" for savings—appears to also be effective at promoting savings. In a field experiment conducted in India, Soman and Cheema (2011) tested the role of visual reminders and partitioning (i.e., earmarking money into a separate bucket for savings) on subsequent spending and saving behavior over a 14-week period. Their experiment showed that not only are visual reminders for saving effective in getting people to spend less, but earmarking savings causes people to save more over the period. Similarly, savings reminders have effectively increased savings, especially when people are reminded of future expenditures for which the savings funds could be used (Karlan, McConnell, Mullainathan, & Zinman, 2016).

However, both earmarking and goal-setting have been shown to backfire at times. Understanding the importance of savings, people may exhibit a tendency to hold on to their earmarked savings, even when doing so requires accruing high-interest debt (Sussman & O'Brien, 2016). Moreover, goal frames can be helpful, except when they create goal conflict. Prior research suggests that compared to having one savings goal in mind (e.g., retirement), thinking about multiple savings goals (e.g., retirement and education for children) can be demotivating, resulting in lower savings rates overall (Soman & Zhao, 2011).

2.1.2 | Leveraging norms, habits, and feelings

Across a number of domains, social norms have been found to be strong motivators for behavioral change, leading some researchers to hypothesize that social norms could influence retirement savings behavior (Wiener & Doescher, 2008). However, recent work provides mixed results. Prior research has found, for instance, that *injunctive* social norms (i.e., norms that are suggestive of what others *should* do) exert more influence on retirement savings intentions than *descriptive* norms (i.e., norms that indicate what others *actually* do; Croy, Gerrans, & Speelman, 2010). But normative information can also backfire. Beshears, Choi, Laibson, Madrian, and Milkman (2015) provided peer information to low-savings individuals working in a company that offered a 401(k) plan. Although some subgroups increased savings as a result of seeing peer information, other groups were less likely to save, perhaps because the information led to upward social comparison, which had a demotivating effect.

Personal savings goals are often met through a series of repeated decisions. In fact, savings habits play a critical role in the amount of money consumers are able to save (Loibl, Kraybill, & DeMay, 2011). Tam and Dholakia (2014) leveraged the importance of habit formation in an intervention to improve savings behavior. The authors asked participants to focus on different models of time passage: one in which time is cyclical, with savings being one aspect of that cycle; and one in which time is linear, with savings being a planned goal to achieve. They found that those who thought of time as cyclical—who saw savings as a regular, habitual behavior—reported saving more than those who imagined time passage as linear. Another study confirmed that thinking linearly causes people to delay saving more (Tam & Dholakia, 2011).

People's feelings also influence whether or not they choose to save. When people are made to feel responsibility for the well-being

of their future selves, they are more likely to save for retirement (Bryan & Hershfield, 2012). In the context of personal savings, feelings of power and stress have mixed effects. Although feelings of power generally make people more likely to save (Joshi & Fast, 2013; but see Zhang & Smith, 2018), saving for a status-related product tends to motivate those with less power (Garbinsky, Klesse, & Aaker, 2014). Moreover, when consumers experience stress, they may save to restore feelings of control, or they may be inclined to spend money on necessities (i.e., not save; Durante & Laran, 2016).

2.1.3 | The potential of just-in-time savings

One of the major barriers to promoting savings may be consumers' lack of discretionary income—whether actual or perceived. Given that consumer responses to predictable income changes are stronger than classical economic theory would predict (e.g., Jappelli & Pistaferri, 2010), leveraging prospect theory by encouraging consumers to consider their income as a gain could promote just-in-time savings behavior (Epley & Gneezy, 2007). One possibility for the promotion of just-in-time savings involves intervening at the time when consumers expect to receive tax returns. While programs offering matching incentives for low- to moderate-income Americans to save tax refunds have been shown to be effective (Azurdia & Freedman, 2016; Key, Tucker, Grinstein-Weiss, & Comer, 2015)—especially when such incentives are framed as matching contributions rather than tax credits (Saez, 2009)—they are quite costly. In addition, although there is evidence that those who make estimates of their refunds are more likely to save portions of their refunds (Porto & Collins, 2017), there is no causal evidence that making such plans results in greater savings. In a large-scale experiment with TurboTax software, people allocated a larger portion of their refunds to be deposited into savings accounts when presented with savings-salient choice architecture (Grinstein-Weiss, Russell, Gale, Key, & Ariely, 2017; Grinstein-Weiss, Cryder, et al., 2017). In fact, the most successful treatment arm in the experiment included a message highlighting the need for emergency savings. However, in another study with TurboTax, there was no impact of messaging (e.g., for retirement savings or emergency savings), even though suggested anchors had positive effects on savings contributions (Grinstein-Weiss, Russell, et al., 2017). Taken together, these findings suggest that while messaging may be promising, choice architecture and reframing the savings choice could be more critical components influencing savings choices at tax time.

2.2 | The reduction of consumer debt

Household consumer debt is on the rise for Americans. At the end of the first quarter of 2018, for example, U.S. households owed a total of $13.21 trillion in debt (Federal Reserve Bank of New York, 2018), and a recent study showed that 80% of Americans currently hold some kind of debt (Pew Charitable Trusts, 2014). With many of these liabilities taking the form of costly, high-interest debt, reducing debt balances is a valuable goal for improving financial health. Recent literature on consumer debt has fallen into one of two categories of general debt behaviors: how consumers get into (mostly credit card) debt and methods consumers can use to more effectively repay overall debt balances.

2.2.1 | Debt accrual

Prior work suggests that when given the option, people would rather avoid having debt, even at a cost. This observation is based on a theory relating to how people mentally account for debt: Consumers prefer to keep their mental accounts in the "black" rather than in the "red"—that is, in the domain of gains rather than losses (Prelec & Loewenstein, 1998). To keep mental accounts out of the loss domain, consumers should either accelerate payment or prepay for consumption, and by doing so, stay out of debt. This theory is corroborated by existing research demonstrating that consumers often prefer to prepay for consumption over actively delaying payment (Gourville & Soman, 1998; Patrick & Park, 2006). In addition, while paying back debt is often painful (Greenberg & Hershfield, 2016), holding debt can be stressful (Brown, Taylor, & Price, 2005). Consumers may thus exhibit debt aversion not only because they want to keep their accounts out of the red, but also because they experience stress from knowing they have accounts in the red.

Yet, despite consumers' debt aversion, many still accrue it, especially in the form of credit card balances. Indeed, the majority of debt accrual research revolves around the relative ease with which consumers borrow on credit cards. For many consumers, using a credit card is viewed as a means for spending rather than a method of borrowing, even though such spending often results in their becoming indebted. Consumers tend to view credit cards as facilitators for lifestyles that they cannot afford but wish to attain (Bernthal, Crockett, & Rose, 2005). As a result, consumers may accrue large amounts of debt because achieving an unaffordable lifestyle is made easier by credit cards, a ubiquitous debt vehicle that allows for unplanned purchases. Higher credit limits often compound this issue and lead to higher levels of credit card borrowing (Soman & Cheema, 2002). When consumers have a higher limit on their credit card spending, they infer (often erroneously) that their future incomes will be higher, and thus, that they will have enough money at a later date to pay off their credit cards.

Prior empirical and experimental work also suggests that taking on credit card debt is psychologically different from spending with cash. Many consumers find it easier to borrow with high-interest credit cards than they do to spend existing savings. In particular, when faced with the decision to spend with high-interest credit cards or withdraw from earmarked savings accounts, people are not only more inclined to use their credits cards to pay for expenses, but they also believe that doing so is the more responsible choice (Sussman & O'Brien, 2016). Spending with credit cards has been shown to be psychologically less challenging than spending from savings or cash: Credit cards are spending facilitators (Feinberg, 1986; Hirschman, 1979; Morewedge, Holtzman, & Epley, 2007; Raghubir & Srivastava, 2008). This facilitation appears to occur because people tend to be

willing to pay more when paying with credit cards rather than with cash (Prelec & Simester, 2001), and often purchase more items when using a credit card, resulting in overall higher levels of spending (Soman, 2001).

2.2.2 | Debt repayment

In addition to focusing on how consumers get into debt, the literature to date has considered how consumers go about repaying existing debts. In particular, several papers address the ways consumers manage the repayment of multiple debt accounts, which in most cases are credit card accounts. Normatively, consumers ought to pay down the debts with the highest interest rates first. However, because people prefer to have as few accounts in the red as possible (Prelec & Loewenstein, 1998), they often begin by paying off the smallest debts first in order to reduce the total number of debt accounts (Amar, Ariely, Ayal, Cryder, & Rick, 2011). Choosing this particular repayment strategy for paying down credit card debt depends on how the debt was accrued. For example, this strategy is especially prevalent when the debts were incurred for hedonic purchases or for purchases made in the distant past (Besharat, Varki, & Craig, 2015).

Yet, as the number of debt accounts increases, people tend to behave more closely in line with the normative model, relying less on this strategy and instead focusing on high-interest debts first (Besharat, Carrillat, & Ladik, 2014). Although not paying down high-interest debts first is strictly more expensive for consumers, the strategy of starting with smaller debts appears to be an effective motivator for repayment (Brown & Lahey, 2015). Indeed, concentrating repayment toward one account rather than several—especially an account with a smaller balance—tends to prompt faster repayment (Kettle, Trudel, Blanchard, & Häubl, 2016). Overall, the closing of debt accounts is predictive of a consumer's likelihood of eventually repaying all debts (Gal & McShane, 2012), suggesting that the strategy is potentially beneficial for repaying credit card debt.

Not only do consumers prioritize repaying some credit cards before others but their repayment decisions may also be affected by the information and framing of credit card statements. For example, the minimum payment amount that appears on credit card statements influences how much consumers decide to allocate toward paying back their credit card debts. These minimum payment amounts often serve as psychological anchors for actual repayment amounts (Stewart, 2009). However, findings on the effects of including minimum required payment information on statements are mixed. For instance, CARD Act disclosures that changed the minimum payment reported on credit card statements increased the amounts allocated toward credit card repayment overall, primarily by encouraging more households to pay back their cards in full (Jones, Loibl, & Tennyson, 2015). However, the mere presence of information about the minimum payment required can often reduce repayment amounts (Keys & Wang, in press; Navarro-Martinez et al., 2011).

In light of the fact that consumers underestimate the amount of time it takes to pay down debt (Soll, Keeney, & Larrick, 2013), other research considers how repayment decisions are affected by the way information is presented. For example, while information about the long-term consequences of repayment may encourage repayment allocations (McHugh & Ranyard, 2012), information about payoff scenarios could have the opposite effect (Hershfield & Roese, 2015). Whether information promotes repayment depends critically on the type of information presented: While information about repaying the minimum may not affect repayment, information about choosing larger repayment amounts does (Salisbury, 2014). Importantly, information about the future interest costs associated with delaying repayment appears to be more effective than that which explains the time consumers have to repay their debts. For consumers who sufficiently understand compound interest, information about time can actually backfire.

2.3 | The psychology of budgeting

Consumers have finite financial resources with which to make purchases; as such, they must constantly make tradeoffs and consider how they allocate their budgets (Du & Kamakura, 2008). People differ in how much they consider how to allocate their funds into categories—that is, the extent to which they mentally budget and plan (Lynch, Netemeyer, Spiller, & Zammit, 2009; Stilley, Inman, & Wakefield, 2010; Van Ittersum, Wansink, Pennings, & Sheehan, 2013). While specific data on the propensity to budget are hard to come by and may vary geographically and demographically, there are some indications that many people make attempts to budget. Some fraction between one-quarter to one-half of the Dutch population, for instance, engages in a form of mental budgeting (Antonides, De Groot, & Van Raaij, 2011). Generally, people attempt to make predictions about their spending about two-thirds of the time in everyday life (Peetz, Simmons, Chen, & Buehler, 2016). While budgeting can be a beneficial strategy for avoiding overspending, budgets that are too rigid (Larson & Hamilton, 2012) or tracked too closely (Van Ittersum, Pennings, & Wansink, 2010) can backfire.

Consumers also fail to accurately predict their future spending and budgets. Not only do people tend to underestimate their future spending, but their desire to save and stay within budget also can exacerbate such underestimation tendencies (Peetz & Buehler, 2009). Moreover, research suggests that people fail to account for or underestimate the effect of expenses on their overall financial pictures. Specifically, consumers underweight the extent to which expenses affect their disposable income (Berman, Tran, Lynch, & Zauberman, 2016) and tend to underestimate exceptional expenses (Sussman & Alter, 2012). Yet predictions about future spending are improved when prediction targets are construed with a higher level of abstraction (Peetz & Buehler, 2012), cover a longer time period (e.g., a year vs. a month; Ülkümen, Thomas, & Morwitz, 2008), or are associated with concrete events rather than time frames (Peetz & Buehler, 2013).

3 | THE PSYCHOSOCIAL DETERMINANTS OF FINANCIAL WELL-BEING

Much of the foundational work in behavioral research documenting differences in underlying preferences and attitudes is linked to financial decision making. Early behavioral work on risk and uncertainty, self-control, heuristics and biases, and framing relate to a wide array of decisions, both financial and non-financial. Although there have been numerous developments and extensions of these theoretical works in recent years, we focus on recent research examining how some of these differences directly map on to financial decision making—and specifically, financial well-being. Thus, we discuss the role of financial literacy, thinking about the future versus the present, and attitudes toward money and spending in financial well-being.

3.1 | The role of financial literacy

Although financial literacy has been linked to a number of positive financial behaviors, financial literacy interventions have been largely ineffective. It is important to note that for consumers to make decisions and behave in ways that are consistent with their financial well-being, they must have sufficient skill and knowledge in the financial domain. Researchers have defined financial literacy through a combination of understanding important financial concepts, basic knowledge of financial products, and relevant mathematical ability (i.e., numeracy). Notably, financial literacy has been linked with several important financial behaviors and consequences (Lusardi, 2012; Lusardi & Mitchell, 2014; Peters, 2012), including the accumulation of retirement savings and wealth (Lusardi & Mitchell, 2007, 2011) as well as over-indebtedness (Lusardi & Tufano, 2015). Therefore, there is ample evidence that improving financial literacy could provide more favorable financial outcomes for consumers.

Yet, the effectiveness of programs aimed at making consumers more financially literate has been limited. A recent review of financial literacy and financial education concluded that of the few studies in which randomization or natural experimentation was used to test the effectiveness of financial education on financial outcomes, the evidence for success is mixed at best (Hastings, Madrian, & Skimmyhorn, 2013). In addition, the review cast some doubt on the assumption that financial education programs are useful policy tools, given the lack of research on the costs of such programs (Willis, 2011). A thorough meta-analysis similarly found that financial education had minimal to no impact on financial behaviors and that the most effective financial education should be temporally coupled with relevant financial decisions (Fernandes, Lynch, & Netemeyer, 2014). More recently, studies on the impact of financial education on financial outcomes to improve financial literacy from a variety of populations—including immigrants (Barcellos, Carvalho, Smith, & Yoong, 2016), students (Barua, Koh, & Mitchell, 2018; Bruhn, Leão, Legovini, Marchetti, & Zia, 2016), youth (Berry, Karlan, & Pradhan, 2018), and adults (Bruhn, Ibarra, & McKenzie, 2014)—have been similarly unsuccessful or have shown mixed (i.e., effects are short-lived and/or small) results. Taken together, research conducted since past meta-analyses has shown that financial education by itself is relatively ineffective at changing behavior.

However, when coupled with other interventions, financial education has shown some promise. For example, when goal-setting and/or financial counseling is complemented with financial education, people have more favorable financial outcomes (Carpena, Cole, Shapiro, & Zia, in press). One potential reason for the effectiveness of this approach is that it improves not only financial literacy, but subjective financial knowledge. Specifically, financial counseling may improve financial literacy while also boosting confidence in one's ability to make prudent financial choices. Given the role subjective knowledge plays in consumer financial decision making (Allgood & Walstad, 2016; Hadar, Sood, & Fox, 2013), there may be promise in financial education that has lasting impacts on people's feelings about their own knowledge rather than knowledge or literacy itself.

3.2 | Thinking about the future versus the present

Because most financial decisions fundamentally involve tradeoffs between what consumers may want in the present versus what they can have in the future, a large body of research has examined how consumers think about tradeoffs between the present and the future. In this section, we discuss the ways that self-control and temporal discounting are inherently linked to financial choices, and attitudes about one's future self are linked to financial well-being.

3.2.1 | Time discounting

Consumers often discount the value of future rewards relative to present ones: A smaller amount of money available today may feel as if it is worth more than a larger sum that can be obtained tomorrow. Although it is rational to discount the value of future rewards to some degree (e.g., due to inflation, a future dollar may simply be worth less than a dollar received today), prior research has examined the ways in which consumers discount future rewards, finding that they often do so to an excessive extent (see Frederick, Loewenstein, & O'Donoghue, 2002 for a review), and use hyperbolic, rather than exponential, models to discount future rewards (e.g., Scholten & Read, 2010).

Recent work has attempted to go beyond some of these earlier observations to link discount rates elicited in laboratory contexts with consequential behaviors observed in field settings. For example, higher discount rates at age 13 are negatively related to income obtained later in life (Golsteyn, Grönqvist, & Lindahl, 2014). Discounting behavior also seems to affect the tendency to get into debt. Self-reported impulsiveness, for example, is linked to overall indebtedness (Gathergood, 2012), and temporal discounting is associated with both creditworthiness and the extent to which consumers use credit cards to borrow money (Meier & Sprenger, 2010, 2012). Other work has also found that such time preferences extend to mortgage choices, with consumers who have higher discount rates

showing an increased preference for mortgages that have minimal up-front costs, but a decreased preference to abandon mortgages that are no longer financially viable (Atlas, Johnson, & Payne, 2017).

3.2.2 | Connectedness to the future self

Other research has investigated how the attitudes that consumers hold about their future selves can impact the financial decisions that they make. Namely, theorists have suggested that when making financial tradeoffs between the present and the future, many individuals may be prone to thinking that their distant, future selves seem like other people altogether (e.g., Parfit, 1984). To the extent that present sacrifices are made for a future version of the self that feels like a stranger, it may seem rational to consume in the present and not save for the future. Yet, recent theorizing has suggested that what matters for financial tradeoffs is not whether the future self seems like another person, but what sort of other person that future self is (Hershfield, 2018). If the future self is thought of as similar and emotionally connected to the present self, then it may make sense to make present-day sacrifices for the distant self's benefit, in much the same way that it makes sense to make sacrifices for one's children, aging parents, or spouse.

Indeed, researchers have found that consumers who feel a greater sense of similarity to their future selves are also less likely to discount future rewards in laboratory settings (Bartels & Urminsky, 2011; Ersner-Hershfield, Garton, Ballard, Samanez-Larkin, & Knutson, 2009), a finding that has also been demonstrated on neural levels (Ersner-Hershfield, Wimmer, & Knutson, 2009) and in experimental contexts (Bartels & Rips, 2010). Greater connection to the future self is also associated with greater accrual of assets over time (Ersner-Hershfield, Garton, et al., 2009), a relationship that is especially pronounced when consumers consider opportunity costs (Bartels & Urminsky, 2015).

3.3 | Attitudes toward money and spending

Because the availability of money has a significant impact on financial well-being, it is important to understand how consumers think about their money and how to part with it. Two important aspects of money attitudes involve the extent to which people plan to spend their money and the ease with which they are willing and able to part with their money. First, the extent to which consumers are able to control spending—rather than make impulsive spending choices—is an important positive predictor of financial well-being. While many consumers engage in impulse buying for numerous reasons, there appear to be differences in consumers' tendencies to exercise spending self-control (Haws, Bearden, & Nenkov, 2012), which could have substantial effects on financial well-being over time. Second, the propensity to plan in the long run (specifically in the money domain) is a strong positive predictor of creditworthiness (Lynch et al., 2009). Thus, the propensity to plan appears to be an important individual difference that predicts positive financial outcomes.

In addition to planning for future expenditures, some consumers may be more inclined toward spending than others. While some consumers ("tightwads") experience a general aversion to spending money, others ("spendthrifts") have less difficulty parting with their money (Rick, Cryder, & Loewenstein, 2007). Notably, the extent to which a consumer is a tightwad positively predicts savings levels and negatively predicts debt levels. Consistent with the notion that people experience pain of paying (Shah, Eisenkraft, Bettman, & Chartrand, 2015; Soster, Gershoff, & Bearden, 2014; Thomas, Desai, & Seenivasan, 2010), the tendency to be a tightwad with money arises from the anticipation of negative feelings from spending money. Moreover, differences between tightwads and spendthrifts can create problems when they choose to marry one another; they are more likely to experience conflict over finances and reduced satisfaction (Rick, Small, & Finkel, 2011).

4 | THE ROLE OF SITUATIONAL FACTORS IN FINANCIAL WELL-BEING

A fundamental aspect of financial well-being is the overall financial profile of a household. However, two households with the same financial situations might perceive their circumstances differently. Perceived financial well-being, which consists of stress related to money management as well as feelings of security in one's financial future, in fact, maps on to overall subjective well-being (Netemeyer, Warmath, Fernandes, & Lynch, 2018). Importantly, different states of both objective and subjective financial well-being have implications for financial decision making. This section addresses the role of wealth perceptions, as well as the economy and relative status in financial well-being.

4.1 | Wealth perceptions

Perceptions of wealth have a number of known determinants. Gasiorowska (2014) operationalized subjective wealth as a combination of the adequacy of one's income and the ability to make ends meet. In an analysis of which factors relate to subjective wealth, the perceived control over one's finances (i.e., one's ability to monitor one's money) was a positive predictor, while anxiety about money (i.e., worry regarding issues related to money) was a negative predictor. Moreover, while subjective assessments of wealth ought to take assets and debts into account equally, individuals give more weight to either assets or debts depending on their net worth (Sussman & Shafir, 2012). In particular, when net worth is positive, debt has a disproportionately negative effect on perceptions of wealth; when net worth is negative, however, assets are given more positive weight.

Perceptions of wealth have real behavioral consequences, especially when people feel impoverished or believe their resources to be scarce. Scarcity can cause people to make decisions that are more in line with classical economic models. When conditions are scarce, people are more inclined to focus on immediate needs and make

relevant tradeoffs, with less susceptibility to context effects (Shah, Mullainathan, & Shafir, 2012). Yet, this increased focus on more near-term needs can lead people to ignore long-term issues that could arise. In another paper that used multiple-round experiments, although scarcity caused people to attend to the task at hand, this increased focus brought on by scarcity led to more borrowing against future rounds (Shah, Shafir, & Mullainathan, 2015). Therefore, the scarcity mindset may be one that creates more of a present-oriented focus, which could either help or hurt consumers.

People who feel wealthy sometimes behave differently from those who feel poor. In one study, people made to feel less wealthy exhibited more present bias—putting a disproportionate amount of weight on the present when making intertemporal choices (Carvalho, Meier, & Wang, 2016; see also Malkoc & Zauberman, 2019). Namely, people who had low incomes were randomly assigned a survey either before or after their paydays. Although no differences in risk-taking, cognitive tasks, or heuristic judgments were observed, those who were assigned the survey before payday were more present-biased with money compared to those assigned the survey after payday. Yet, in other work, wealth perceptions do affect risk-taking behavior. Compared to a control group, research participants who were asked to imagine that they would be wealthy in the future were more risk-seeking than were those who were asked to imagine they would be poor in the future (Greenberg, 2013). Notably, wealth perceptions may arise from early-life objective socioeconomic status: People who grew up with higher socioeconomic status tend to be less impulsive and more risk-averse than those who grew up with lower socioeconomic status (Griskevicius et al., 2013).

To the extent that subjective wealth is a function of objective wealth, we might expect that individuals at extremely low levels of wealth (e.g., poverty) behave differently. Interestingly, poverty does not always lead to increased attention to tradeoffs. There is ample evidence that people tend to neglect opportunity costs (Frederick, Novemsky, Wang, Dhar, & Nowlis, 2009; Greenberg & Spiller, 2016; Spiller, 2011). When consumers have scarce resources, they ought to be more inclined to focus on tradeoffs, and thus, less likely to neglect opportunity costs. Indeed, when people were asked about their willingness to buy products of various types and prices, reminders about opportunity cost affected low-income and high-income individuals equally, suggesting that opportunity cost neglect is not less prevalent among the poor (Plantinga, Krijnen, Zeelenberg, & Breugelmans, 2018). Therefore, although poverty may lead to behavioral differences in some circumstances, it does not always affect decision making in predictable ways.

4.2 | The economy and relative status

Just as subjective wealth has important effects on financial decision making, perceived wealth relative to past wealth has been found to be relevant to financial behaviors. Changes in the economy directly affect the financial resources available to consumers. In addition, macroeconomic fluctuations affect consumers' underlying tastes and preferences (Kamakura & Du, 2011). For example, economic contractions and expansions have differential effects on risky decisions. Specifically, economic contractions promote risk-averse decisions for negative outcomes, and economic expansions promote risk-seeking decisions for positive outcomes (Millet, Lamey, & Van den Bergh, 2012).

Moreover, consumers consider not only their overall wealth, but also their relative status. When low socioeconomic status is made salient, people are more likely to engage in behaviors with high risk and low returns (Haisley, Mostafa, & Loewenstein, 2008). In one experiment, when low-income individuals were primed to perceive their own income as low relative to an implicit standard, they were more likely to purchase lottery tickets. This finding is consistent with the idea that economic inequality leads to more risk-seeking behavior (Krupp & Cook, 2018; Mishra, Hing, & Lalumiere, 2015; Payne, Brown-Iannuzzi, & Hannay, 2017). Furthermore, inequality and perceived economic mobility affect how people spend. Consumers who are materialistic have been shown to be more likely to engage in impulsive spending when they perceive low economic mobility than when they perceive high economic mobility (Yoon & Kim, 2016). But consumers may be more likely to spend on conspicuous consumption in the face of reduced inequality, since gaining status is easier when inequality is low than when it is high (Ordabayeva & Chandon, 2010).

5 | FUTURE DIRECTIONS

Despite the fact that there is extensive research in the area of financial decision making, there are a number of open questions remain for the field to address. We suggest that research could more closely examine the ways consumers differentiate between similar financial categories and products, and systematically investigate some of the most important (and complex) financial decisions.

5.1 | Differentiating between similar financial categories

Building on recent research suggesting that consumers who differentiate between financial products to a greater extent are more financially healthy (Greenberg, Sussman, & Hershfield, 2018), here we provide broad examples of how it would be useful to consider nuanced differences among seemingly similar financial decisions.

5.1.1 | Unplanned debt types versus planned debt types

With the exception of recent work demonstrating that consumers are differentially averse to high-interest and low-interest debts (Greenberg, Sussman, & Hershfield, 2018), and that some debt types are more likely to affect life satisfaction than others (Greenberg & Mogilner, 2018), little work has examined how debt types are weighed against one another. Given that unplanned forms of debt may be more deleterious to financial well-being,

investigations that consider consumers' decisions to take on unplanned debt and shy away from planned forms of debt would be valuable.

For example, work in the area of reducing unplanned debt in favor of planned forms of debt exists primarily in understanding how debt consolidation loans are advertised. When information about a debt consolidation loan and its lender are made more salient, consumers are more likely to engage in money management and consider the importance of interest rates in loan decision making (Bolton, Bloom, & Cohen, 2011). Additionally, qualitative work suggests that consumers do not view all types of debt as interchangeable. Namely, consumers do, in fact, make a distinction between good and bad debts: Good debt is perceived as having the potential to generate returns over time, while bad debt is accrued for the sake of ephemeral, potentially regrettable purchases (Peñaloza & Barnhart, 2011). The qualitative study concludes that good debts (e.g., mortgages, student loans)—which happen to require more planning—are not stigmatized in the same way as other types of debt. Future research should consider the underlying reasons why consumers tend to shy away from planned forms of debt and fall into unplanned ones, with the aim of moving consumers toward more sustainable debt use.

5.1.2 | Different motives for savings

Much of the work on savings has paid attention to long-term savings. For example, research has focused on the promotion of retirement savings behavior and why people may systematically undersave for the long-term goal of retirement (e.g., Benartzi & Thaler, 2007; McKenzie & Liersch, 2011). Yet, the psychological forces that underlie the many decisions that cause consumers to save more for retirement may be quite different from those that underlie savings decisions with different temporal horizons. The choice to start an emergency savings fund, for instance, involves a short-term time horizon and could bring financially fragile consumers toward financial health (Lusardi, Schneider, & Tufano, 2011). Similarly, what encourages consumers to save for a vacation or a new smartphone likely diverges from the precautionary savings motives that promote long-term savings goals such as education for one's children or end-of-life healthcare expenditures. As a result, future research should pay special attention to distinguishing between long-term, medium-term, and short-term savings, and develop a better framework for understanding how these different savings motives converge or diverge.

5.2 | Unpacking complex decisions

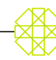
Compared to small-scale financial behaviors, highly consequential, complex decisions (e.g., homeownership) are likely multiply determined. Thus, it is important to systematically tackle which factors matter most in driving consumer choices in these multifaceted financial domains. Here we introduce several examples of complex financial choices consumers face, and advocate the use of individual differences and systematic intervention studies to unpack the underlying psychology and potential effects these choices have on financial well-being.

5.2.1 | Social Security claiming decisions

In the United States, Social Security income is the largest—and frequently, the only—source of income for adults of retirement age. Unfortunately, Americans tend to claim Social Security early rather than delay claiming for higher monthly benefits. And yet, until recently, there has been little work in consumer psychology investigating why Americans tend to claim Social Security benefits early. Some work has attempted to understand how framing and information display (Brown, Kapteyn, & Mitchell, 2016; Knoll, 2011; Knoll, Appelt, Johnson, & Westfall, 2015; Payne, Sagara, Shu, Appelt, & Johnson, 2013) and uncertainty in longevity estimates (Greenberg, Hershfield, Payne, Shu, & Spiller, 2017) move people toward delaying claiming, resulting in higher potential lifetime earnings. Moreover, certain individual differences, including loss aversion, impatience, and perceived ownership of Social Security benefits, are significant predictors of early claiming intentions (Shu & Payne, 2016), suggesting that there is room for intervention. Future work should examine which psychological forces motivate delayed versus early claiming choices, with the potential that there may be heterogeneity across individuals with respect to which motives are at play in the decision to claim Social Security benefits early (e.g., Greenberg, Hershfield, Shu, & Spiller, 2018). Through theory-driven interventions alongside the measurement of relevant individual differences, future work should aim to systematically study the psychology of decumulation decisions and retirement age choice, which are related to but distinct from claiming decisions.

5.2.2 | Homeownership choices

A home is the single most expensive item that consumers purchase during a lifetime. Indeed, economists have devoted a great deal of attention to understanding differences in homeownership, mortgage choice, default behavior, and macroeconomic determinants of home buying. There are two related research questions that may be of particular interest to the field of consumer financial decision making. First, it would be useful to understand both the determinants and consequences of buying a home. While people who purchase homes tend to be more satisfied with their housing than when they were renters (Diaz-Serrano, 2009), little is known about when and how consumers decide to purchase homes, their motivations for becoming homeowners, and their financial and subjective well-being resulting from becoming homeowners. Second, furthering knowledge about the process of search for homes and decisions about related debt financing could be fruitful. In addition to examining the relationship between individual differences and mortgage choice (e.g., Atlas et al., 2017), researchers could investigate how consumers make tradeoffs between home characteristics (e.g., size and cost), and the extent to which people's decisions are optimal.



5.2.3 | Educational choices

Although the decision to go to college has lifelong effects on financial well-being, researchers in the area of consumer financial decision making have largely ignored this consequential domain. With the exception of research that demonstrates that students choose colleges that match their interests (Nurnberg, Schapiro, & Zimmerman, 2012) and are more likely to matriculate if there is no cloud cover on the date of their tour (Simonsohn, 2010), the field knows very little about the factors that influence consumers' decisions about attending college. To this end, researchers could examine the psychosocial and financial factors that influence people's decisions about whether to attend college, whether to stay in college, and which college to attend. For example, it would be both theoretically and practically meaningful to study the tradeoffs consumers make between different colleges with regard to cost and anticipated satisfaction. Relatedly, future research could benefit from investigating which factors contribute to anticipated satisfaction in the college settings and post-graduation, as well as actual satisfaction in both periods. Moreover, given the growing prevalence of student debt as a deterrent to college (Callender & Mason, 2017), it is important to study the tradeoffs students make between their preferred colleges and the willingness to use debt financing, and how debt (or cost more generally) factors into the ways consumers shop for institutions of higher education.

5.2.4 | Investment-related decisions

Investor psychology has been widely studied in an active subfield of finance typically referred to as behavioral finance (e.g., Barberis & Thaler, 2003). Much of the work in this area addresses behavioral phenomena in financial markets that appear inconsistent with classical models (e.g., efficient markets). In addition, much of the work in decisions under risk and uncertainty has been linked to investments and portfolio choice. With the exception of recent research that examines how consumers process financial market information (Duclos, 2015; Raghubir & Das, 2009; Warren & Sorescu, 2017), consumer psychology researchers have devoted little effort to delving into interventions related to investing in financial markets. For instance, future research could address ways to encourage consumers to participate in the stock market, move people away from stock picking and toward mutual funds, and rely less on expensive fund managers. Such a research program could involve investigating not only individual differences underlying these behaviors, but also experimental work aimed at testing which psychological factors motivate behavioral change.

6 | CONCLUSION

Financial decisions are unique because they are consequential for all other areas of consumer decision making. In this review, we aimed to summarize contemporary literature on financial decision making by organizing it into three coherent groupings. Namely, we observe that prior research has investigated the various behaviors that promote financial well-being, the psychosocial determinants of financial well-being, and the role of situational factors in financial well-being. Although much progress has been made in understanding the way that these factors contribute to consumer welfare, there are still many avenues left to explore. Specifically, we propose that future research should differentiate between similar types of financial categories, and aim to understand the consumer decision making processes that are involved in complex financial decisions. Doing so will help researchers both understand consumer financial decision making and promote financial decisions that maximize well-being over time.

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