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Full length article

Financial well-being, COVID-19, and the financial better-than-average-effect

Kinga Barrafrem a,⁎, Daniel Västfjäll b, c, Gustav Tingham a, d

a JEDI Lab, Division of Economics, Department of Management and Engineering, Linköping University, Linköping, Sweden
b JEDI Lab, Division of Psychology, Department of Behavioral Sciences and Learning, Linköping University, Linköping, Sweden
c Decision Research, Eugene, OR, USA
d The National Center for Priority Setting in Health Care, Department of Medical and Health Sciences, Linköping University, Linköping, Sweden

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A B S T R A C T

At the onset of the COVID-19 outbreak we conducted two surveys in the United Kingdom and Sweden (N=2021) regarding how people assess the near future economic situation within their household, nation, and the world. Together with psychological factors related to information processing we link these prospects to financial well-being. We find that, although generally very pessimistic, a substantial proportion of individuals believes that their households’ economy will be doing substantially better than the national and global economy, suggesting a “financial better-than-average” effect. Furthermore, we find that the pessimism regarding future household economic situation and being financially ignorant are associated with decreased financial well-being, while the (inter)nacional economic situation is not. This study shows how contextual factors and personal aspects shape financial well-being during turbulent and stressful times.

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1. Introduction

The spread of the COVID-19 is a global emergency for people's lives and health. At the same time, the outbreak is having major effects on the economy both for households and nations. International Monetary Fund (2020) has projected in its World Economic Outlook report published in June 2020 that due to COVID-19 pandemic the global economy will contract sharply by −4.9 percent in 2020. This economic downturn is far worse than during the financial crisis in 2008 and is the worst recession since the Great Depression. No one knows what the long-term consequences of this pandemic on the global economy will be. The exogenous shock that this natural disaster imposed on the global economic situation is a form of a natural experiment, which calls for research trying to understand the impact of COVID-19 on financial outcomes and individual’s behaviour (Goodell, 2020). At the onset of COVID-19 outbreak we surveyed people in two European countries regarding how they assess the future economic situation within their household, nation, and the world as a whole. Moreover, we collected individual difference measures on financial factors related to information processing, financial literacy, and emotional aspects of financial well-being. This allows us to explore which factors contribute to better financial well-being during a sudden financial crisis.

The response to the spreading COVID-19 pandemic in the first quarter of 2020 differed across countries. While some announced a national lockdown, others took more lenient approach. Both Sweden and the United Kingdom belonged to the latter at the onset of COVID-19. Both countries recommended social distancing and working from home, but did not make these measures legally binding. However, after the numbers of cases soared up, the prime minister of the United Kingdom, Boris Johnson, introduced a national lockdown on 23rd of March 2020. Sweden stood fast in its approach throughout the following months, raising questions and criticism in the rest of the world. In addition to different approach to tackling COVID-19 pandemics, both countries differed in the number of cases and casualties per capita.

Financial well-being, or peoples’ own perspectives on their financial situation is sometimes proposed to be the ultimate measure to evaluate financial health. Financial well-being as a subjective measure is commonly collapsed into two facets: (a) financial anxiety about the current financial matters, and (b) financial security about one's future financial situation (Lind et al., 2020; Netemeyer et al., 2017). While financial well-being is affected by factors outside of individuals’ control, it can also give an indication of how individuals, given the current financial circumstances, can make the best out of the situation (Consumer...
Financial Protection Bureau, 2015). For instance, Kempson and Poppe (2020) surveyed UK households in March 2020 at the onset of COVID-19 and found that 35% reported to feel financially secure and about 50% reported to feel anxious about their finance. Although some studies have explored factors related to financial well-being in general (see Kempson et al., 2017; Tharp, 2017 for reviews of relevant empirical studies) little is known about the factors related to financial well-being during a rapid and unexpected economic downturn.

Previous research has identified multiple factors that affect financial well-being. Some of them include: (1) social and economic environment like macro-economic context, family wealth, access to education, and geographic location (Brüggen et al., 2017); (2) objective and subjective financial knowledge (Joo and Grable, 2004; Lind et al., 2020) (3) trait self-control (Strömback et al., 2020); and (4) information avoidance and financial ignorance (Barrafrem et al., 2020). The COVID-19 pandemic is having a great impact on the world’s economic situation and thus constitutes a non-negligible part of the prevailing economic context. However, individuals may differ in their perception of how well they think they will be doing in the near future. Furthermore, they may perceive the macroeconomic outlook differently, i.e., they are likely to differ in their predictions of how well the rest of the citizens in their country, and in the world will be doing. The expectations regarding private, but also macroeconomic financial situation may influence individuals’ perception of financial security. In addition, individual differences may lead to different coping strategies with the economic situation during the ongoing pandemic affecting the level of financial well-being. For example, individuals with low levels of financial ignorance may take a more active approach in managing their finance, search for, and take advantage of the advice on how to cope with decreased income, financial uncertainty, etc. Furthermore, individuals with relevant financial knowledge may be able to better cope with the financial crisis compared to individuals with low financial literacy.

Little is known about how psychological aspects related to information processing are linked to financial well-being during turbulent and stressful times. Previous studies have shown that investors tend to ignore the status of their investment portfolio during the market downturns, a phenomenon that has been dubbed the ostrich effect (Karlsson et al., 2009). We define financial ignorance as a tendency to neglect and avoid relevant financial information that is freely available (Barrafrem et al., 2020). For example, individuals may deliberately avoid available information (e.g., about the penalties for rolling over debts), ignore facts that are incongruent with their hopes and beliefs (e.g., what impact will the crisis have on global economy), ignore how multiple small outcomes add up to substantial sums (e.g., how paying off only the minimum on a credit card accrues substantial interest charges), or ignore making decision at all. On the one hand ignorance is a bliss; on the other hand, by hiding their head in the sand, individuals strip themselves off of possibility to timely react to changes in their financial situation and increase the uncertainty of their financial standing.

This study explores the role of pandemics in personal finance. The contribution of this study is twofold; First, we investigate what are the expectations of the future economic outlook of private, national, and global economic situation at the onset of the economic downturn caused by COVID-19 pandemic in the United Kingdom and Sweden. In addition, we inspect how the prospects of future financial situation together with psychological factors related to information avoidance and financial literacy are linked to financial well-being during an ongoing economic crisis.

We conducted an online survey with over 2000 subjects in the United Kingdom and in Sweden. We elicited people’s sentiments regarding their future private and macroeconomic financial situation, as well as individual differences related to financial ignorance, financial literacy, and financial well-being. We find that while negative in general, people’s expectations of their private economic situation are better than country’s or world’s as a whole pointing to something we call a “financial better-than-average effect”. Prospects of private (but not national or global) financial situation are significantly related to financial well-being in both the UK and Sweden. Furthermore, we find that being financially ignorant was associated with decreased financial well-being, while the effect of financial literacy and education on financial well-being is less clear. Although our study was not explicitly designed to make cross-country comparisons, we find similar effects of future sentiments, ignorance, gender, and income across UK and Sweden, despite the obvious differences in public approach to COVID-19 pandemic between the countries.

2. Methods

The online survey was conducted with general population in the United Kingdom between 18th and 20th March 2020 using the platform Prolific (Palan and Schitter, 2018) and in Sweden between 07th April and 23rd April 2020 using the panel provider Origo Group. We measured individuals’ prospects for the future changes in the economic situation using a series of three questions asking about their opinion on how the outbreak of coronavirus disease (COVID-19) will have affected: (1) one’s household economic situation, (2) country’s economic situation, and (3) world’s economic situation in six months from now compared to today. Respondents answered on a five-point scale ranging from “it will be a lot worse than today” to “it will be a lot better than today”. The responses were coded on a scale from −2 to 2.

We measured financial well-being by combining two scales: the Financial Anxiety Scale (Fünfgeld and Wang, 2009) and the Financial Security Scale (Strömback et al., 2017). Individuals were asked to state to what degree they agreed with a series of statements on a scale from one to five. We define higher financial well-being as high values of financial security and low values of financial anxiety. The items in Financial Anxiety Scale were reverse coded. The average values over all the items from each of the scales formed the variable financial well-being. The Cronbach’s alpha for financial well-being is 0.85 in the UK sample and 0.84 in the Swedish sample.

We measured financial ignorance using the Financial Homo Ignorans (FHI) scale (Barrafrem et al., 2020). Individuals were asked to state to what degree they agreed with a series of 12 statements on a scale from one to five. The statements concerned four different types of ignorance: decision avoidance, information avoidance, aggregation bias, and motivated reasoning. The financial ignorance variable was constructed by taking the average value of these 12 items, i.e., its values range from 1 (low level of financial ignorance) to 5 (high level of financial ignorance). The Cronbach’s alpha for the Financial Homo Ignorance scale is 0.80 in the UK sample and 0.81 in the Swedish sample. In addition, individuals answered three-item (“Big Three”) financial literacy scale (Lusardi and Mitchell, 2008) that measured their knowledge about compound interest, inflation, and risk diversification. The financial literacy variable can thus take values between 0 (low financial literacy) and 3 (high financial literacy). All the scales

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1 On 20th March the United Kingdom had 3277 cases and 144 deaths confirmed. On 23rd of April Sweden had 16 004 cases and 1937 deaths confirmed (World Health Organization, 2020).

2 These items where developed by Ali Ahmed for another project.

3 We also conducted analysis using Financial Anxiety Scale and Financial Security Scale separately. We report it in the Supplementary Materials.
are presented in the Supplementary Material. In addition, we collected information about respondent’s age, gender, education and gross income (per individual in the UK and per household in Sweden).

3. Results

The online survey was answered by 1000 respondents in the UK and 1021 respondents in Sweden. Descriptive statistics of the two samples are presented in Table 1. In the UK sample, the mean age was 36 years and 55.3% of respondents were female. In the Swedish sample, the mean age was 48 years, and 50.1% of respondents were female. Thus, the background characteristics were slightly different in the two samples. Moreover, data collections were conducted a couple of weeks apart. In what follows we therefore refrain from direct comparison between the UK and Swedish samples.

3.1. Perceptions of the changes in future prospects of financial situation

Fig. 1 shows the distribution of the expected effect of the outbreak of COVID-19 on future economic situation of one’s household, country, and the world. As anticipated, expectations about the future economic situation were, to large extent very pessimistic. They were more so amongst the respondents in the UK than amongst the respondents in Sweden. For instance, 29% British respondents and 7% Swedish respondents believed that economic situation of their household will be a lot worse in the future than it is now. However, more respondents anticipated that the national and global economic situation would be a lot worse in the future than it is now. These figures were respectively 61.4% and 62.0% in the UK and 36.2% and 47.0% in Sweden. In general, when coding the answers on a scale from −2 to 2, the average response in the UK was −0.93 (household), −1.4 (country), −1.38 (world) and in Sweden −0.31 (household), −1.08 (country), −1.20 (world). Thus, there was a large discrepancy between how people expected their own economic situation to develop compared to the economy at large. The fact that disproportionately more subjects reported changes in their household’s situation to be less bad compared to changes in their country’s or world’s situation, hints to a “financial better-than-average” effect where people are likely to believe that the economic downturn will affect others more severely than themselves. Indeed, we find that the expected future financial outlook for one’s household is better than the future financial outlook for one’s country or the world, both in the UK and in Sweden (t-tests, all p < 0.001). Although the discrepancy between own financial situation and the economy at large is striking, it is also worth noting that there was little discrepancy in the UK between the expected future financial situation of own country and the world in general (−1.4 vs. −1.38, t-test, p = 0.364). Thus, the lower level pessimism that people feel about own finance compared to other’s financial situation does not seem to extend to the comparison of national economy and the global economy. In the Swedish sample respondents were slightly less pessimistic about the financial future of their country compared to the global economy (−1.08 vs. −1.2, t-test, p < 0.001).

To further explore which factors could be linked to the “financial better-than-average” effect we investigated this in a regression framework where we included sociodemographic variables, financial ignorance, and financial literacy as regressors. The results presented in Table 2, show that in both samples financial ignorance was negatively associated with a belief that own economic situation will be less severe than the national and global economic situation. Higher financial literacy is related to belief amongst the Swedish sample that one’s private economy is going to do better than national and global economy. Furthermore, as could be expected older individuals were more likely to believe that their household will be doing financially better than their country or the world in the UK. In the Swedish sample, individuals with higher household income believed that their own future financial standing would be better than others. British respondents with master’s degree or higher believed that their economic situation was less bad than national/global economic situation. Interestingly, we found no significant relationship between gender and the beliefs that own financial standing will be less affected than others. To summarize, we find some evidence that financial ignorance is related to the “financial better-than-average” effect in both the UK and Sweden, while the effects of other factors such as financial literacy, income, age, and education were less clear and differed between our samples.

3.2. Future prospects, financial ignorance, and financial well-being

Next, we inspect how financial ignorance and the sentiments regarding people’s future private and macroeconomic financial situation are related to financial well-being. Table 3 shows the results from regression analyses. Columns 1 and 2 show results from a regression of anticipated future economic prospects on financial well-being in the UK (1) and Sweden (2). Unsurprisingly, individuals with a less pessimistic view regarding the impact of COVID-19 on private economic situation also displayed higher financial well-being. In contrast, the anticipation of negative impact of COVID-19 on the future national and global economic situation were unrelated to financial well-being in both samples. In columns (3) and (4) in Table 3, we expand the models of financial well-being to account for financial ignorance, financial literacy, and to control for demographic variables. We found that the relation between financial well-being and the anticipated future economic situation about own financial situation was robust to the inclusion of additional variables. Furthermore, in both samples financial ignorance had a negative association with financial well-being. Women reported on average lower financial well-being in both samples. In the Swedish sample, older respondents, individuals with higher financial literacy, and individuals with more education reported higher financial well-being, while similar effects were not found in the UK sample.
4. Discussion and conclusions

In this study we investigated how individual perceptions of future economic outlook of private, national, and global economic situation were shaped during the ongoing COVID-19 pandemic and the concomitant economic downturn. Furthermore, we explored the link between financially ignorant behaviour and financial well-being during these uncertain and turbulent economic times.

Our results provide both bad and good news. The bad news is that people are very pessimistic about the economic outlook for the future. However, they are less pessimistic about their own private economic situation in comparison to the national and global economy as a whole. This hints to a financial better-than-average effect. The tendency that people evaluate themselves more positively than they evaluate most other people is among the most well-documented effects in the social–psychological literature (Alicke and Govorun, 2005; Svenson, 1981; Zell et al., 2020). The better-than-average effect shares this characteristic with the optimism bias—the tendency to overestimate one’s chances of good fortune and to underestimate one’s risk for
The questions about the sentiments regarding people’s future financial well-being are less relevant for financial well-being. The good news is that our results suggest that the perceived negative effect of the impact of COVID-19 on financial well-being can be offset to some extent by active information processing. People with low levels of financial ignorance reported higher financial well-being. Thus, ignorance is not a bliss. At least not when it comes to financial well-being during a sudden economic downturn such as the COVID-19 pandemic.

Some limitations of this study should be noted. First of all, both of our samples are slightly more educated compared to the population. Despite this, the findings give some insights into people’s sentiments in two countries that are thus not representative. It is possible that our result of “better-than-average-effect” may be purely rational if, for instance, better-educated individuals tend to do better in terms of, e.g., stability of employment than workers with lower educational attainment during a financial crisis. Furthermore, this study did not set out to directly compare these two countries as there are differences in both sample characteristics and timing of when the surveys were sent out. Still, our findings give some insights into people’s sentiments in two countries that took different approaches and were hit to different extent by the ongoing pandemic. Interestingly, our key findings are consistent across two samples despite these differences.

The ongoing health crisis caused by the COVID-19 pandemic has changed the lives of many people. In many countries borders, schools, and some offices have been closed indefinitely, and grocery stores ran out of products that cover basic needs, such as toilet paper, soap, or dry food. These unexpected changes in everyday life have created a great deal of uncertainty among public. We show that in addition to the health concerns, the outbreak of COVID-19 has also contributed to very pessimistic prospects for the financial future. The eventual scale of the COVID-19 pandemic is still unknown. While uncertain how long the pandemic will last, many individuals predict that their financial situation will be diminishing. The time will show how long national economies (compared to private economy) will have little impact on financial well-being. Thus, in order to prevent from further decreases in financial well-being it is particularly relevant to focus on improving the perceived economic opportunities of private households to help them get through the crisis caused by the outbreak of COVID-19. In addition, making factual information more salient and comprehensible as well as helping individuals to analyse and interpret it in an objective and simple way may be a desired approach to help individuals buffer themselves against the perceived (and actual) negative impact of COVID-19 pandemic on their economy.

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Appendix A. Supplementary material

Supplementary material related to this article can be found online at https://doi.org/10.1016/j.jbef.2020.100410.

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