Unpacking the Relationship Between Financial Health and Mental Health
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RESOURCES

Synopsis: Key Take-Aways from Today's Presentation

Financial challenges and mental health issues are intimately connected. According to the American Psychological Association, 72% of Americans feel stressed about money at least some of the time, which can lead to increased feelings of anxiety and depression. Those feelings then make it harder to manage money concerns, resulting in loss of income or other financial hardships.

Not surprisingly, this feedback loop can accelerate the downward spiral of financial woes and ever-declining mental health; one problem impacts the other creating a negative cycle of deepening financial precarity and increasing mental health despair.

In today's session of BioBites, we will unpack the relationship between money and mental health. But first, we need to define what financial health is. Financial health is a capability and a capacity that anyone can develop when financial systems, including the workplace, help individuals build resilience and pursue opportunities. As we will see during this presentation, it does require that larger systems work in-concert with individuals to achieve desired outcomes. In other words, we cannot do this alone.

The Eight Indicators of Financial Health

At Financial Health Network, we look at financial health across four key pillars: Spending, Saving, Borrowing, and Planning, with two indicators under each of those for a total of eight indicators. We then take the results of those eight indicators and compute a national score. Those scores are then placed into three categories: Financially Vulnerable, Financially Coping, and Financially Healthy.

As it turns out, in our most recent survey in 2022, 31% of the US population are Financially Healthy. What this means, however, is that the vast majority of the population fall into either the Financially Coping category (55%) or the Financially Vulnerable category (15%).

Anchored with this information and data, we can now look at the cycle of debt, stress, and mental health. As we know, there is not one single variable or cause of mental health challenges, but financial stress can be an exacerbator in terms of adding to a greater sense of depression and anxiety. Which is why interventions from financial institutions and employers are so important.

Impact of Debt on Mental Health

Turning now to the on-the-ground impact of debt as it relates to mental health, we have the following data:

Severe debt is related to higher rates of depression, suicide or suicide attempt, alcohol and drug dependence, and psychiatric disorders:

- 73% of Americans rank finances as their No. 1 stress in life.
- People with high financial anxiety are more likely to have past-due healthcare bills.
- Financial stress adversely impacts physical and mental health:
    - 58% believe it affects their physical health; 65% believe it impacts their mental health.
- More debt - especially unsecured debt - is highly correlated to negative health and mental health outcomes.

The Paradigm Shift: Employers' and Financial Institutions' Opportunity to Address the Mental Health Crisis

The workplace is *the* central location for the distribution of certain goods and services that can help mitigate the financial strain many people experience. Here's why:

1. The Basic Inputs of Financial Health
    a. No doubt the workplace can impact mental health, but the core inputs of financial health originate from the workplace.
2. The Power of Behavioral Finance
    a. Defaults and nudges are common in financial health programs, harder (if not impossible) to replicate in mental health benefits.
3. Deaths of Despair
    a. The evidence base for the impact of financial despair's connection to premature death is established and growing, and it may be the key to reducing mental health challenges and improving human flourishing and wellbeing.

With this information, we see that employers have a tremendous opportunity and responsibility, more so than any of the other spheres of wellness people may encounter in their lives.

Behavior Finance and Its Impact

Diving deeper into the behavior behind spending, saving, borrowing, and planning, we see that our choices are often based not in our heads, but rather in our emotions. Here we can use the image of an elephant and a rider. The elephant represents our emotions and the rider represents our rational self.

When we spend, save, borrow, or plan, we may think that we are the rider in control of the elephant. However, data from behavioral economics and behavior finance suggests that the elephant—our emotional side—is primarily the source behind our financial habits and behaviors. We are a combination of emotional creatures who carry *some* capacity for rational decision-making, not the other way around.

Knowing this, it stands to reason that large institutions like employers and especially banks can begin to leverage behavioral economics to increase financial health. Some examples we have seen include employers auto-enrolling workers into a retirement savings program or banks offering supportive features to help folks manage impulsivity.

In summary, we see that the financial health gap can be closed when financial institutions and employers create programs within their systems for folks to feel supported and aided, rather than feeling lost and on their own.

Resources:

1. https://www.massmutual.com/
2. https://www.nytimes.com/2023/03/31/well/tax-day-money-stress-anxiety.html
3. https://finhealthnetwork.org/
4. https://finhealthnetwork.org/research/workplace-financial-health-innovation-exploring-the-spectrum-of-financial-guidance-solutions-for-your-employees/
5. https://amandaclayman.com/
6. https://financialtherapyassociation.org/find-a-financial-therapist/

7. https://futuresmart.massmutual.com/en/

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