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## Financial Wellbeing as a Type of Human Wellbeing: Theoretical Review

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### Abstract

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The article analyzes the term structure of the “wellbeing” concept and describes the various approaches to its definition (theoretical, statistical). Special attention is paid to the concept of financial wellbeing, the factors affecting it and its defining. The authors introduce quantitative indicators, which have a framework nature and starting with them we can speak about financial wellbeing of typical households: minimum consumer budgets that allow householders to live, to develop and to achieve their goals. This research integrates two conceptions in a model of personal well-being: theory of subjective wellbeing of theory of different forms of the capital. Personal well-being consists of physical, psychological (including emotional and mental), social and financial wellbeing. All components of wellbeing are connected with forms of capital, which belong to a person (physical health, capital, social and financial capital). Financial wellbeing defines by financial behavior and income flow generated by basic asset. Financial behavior is an outcome of financial literacy and knowledge, financial attitudes and financial management.paper.

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### 1. Introduction

Currently considerable attention among researchers is paid to the study of different aspects of well-being. On the one hand, wellbeing is an abstract theoretical term that describes the general condition of person or society. The factors of well-being of each person individually can be completely different. On the other hand various organizations and researchers are trying to measure wellbeing.

The measurement of economic output (GDP) is added by measuring of human wellbeing comparing countries by various indicators in current researches (Manakhova, 2013; Better Life Index, 2015 or National Accounts of Well-being). Also the necessity of studying the components of subjective,

individual wellbeing and determinants of life satisfaction, job satisfaction, happiness and other is proved in the literature (Diener E., Suh E.M., Lucas R.E. & Smith H.E., 1999; Davern M.T., Cummins R.A., Mark A. & Stokes M.A., 2007; Kahneman D. & Deaton A., 2010).

## 2. Terms and theoretical frameworks

It is possible to distinguish some species talking about the human wellbeing.

The first objective and subjective well-being are highlighted according to the methodology of measuring well-being. Objective well-being is determined by the external environment, the standard of living in the country and refers to the whole population of the country. This term is generalized and can be used to compare countries, regions. Researchers use terms such as demographic wellbeing, economic well-being (Ageev I.A. & Ageeva V.V., 2015) and human wellbeing. Subjective wellbeing takes into account the individual characteristics of the well-being of the person. The theory of subjective wellbeing is reflected in the research of positive psychology (Diener E., Suh E.M., Lucas R.E. & Smith H.E., 1999; Davern M.T., Cummins R.A. Mark A. & Stokes M.A., 2007). Subjective wellbeing includes a number of psychological factors and splits into several terms (see below).

Many organizations carry out statistical calculations measuring wellbeing in different countries (e.g. OECD, Gallup Organization, Nef organization). Organization for Economic Co-operation and Development compares 38 countries, including Russia, measuring Social Protection and Wellbeing OECD and counting Better Life Index (<http://www.oecdbetterlifeindex.org/countries/>). The calculating of the Better Life Index is based on the following indicators:

- Housing (Dwellings without basic facilities, Housing expenditure, Rooms per person).
- Income (Household net adjusted disposable income, Household net financial wealth).
- Jobs (Employment rate, Job security, Long-term unemployment rate, Personal earnings).
- Community (Quality of support network).
- Education (Educational attainment, Student skills, Years in education).
- Environment (Air pollution, Water quality).
- Civic engagement (Consultation on rule-making, Voter turnout).
- Health (Life expectancy, Self-reported health).
- Life Satisfaction (Life satisfaction).
- Safety (Assault rate, Homicide rate).
- Work-Life Balance (Time devoted to leisure and personal care, Work-Life Balance).

Despite the fact that performance is measured subjectively, through the residents' attitudes toward various issues, they characterize the objective wellbeing of the citizens, reflecting the external environment and living conditions in a particular country.

Nef organization publishes National Accounts of Well-being based on regular, systematic measures.

Nef's report calculates two types of well-being: personal and social. Personal well-being measures people's experiences of their positive and negative emotions, satisfaction, vitality, resilience and self-esteem and sense of positive functioning in the world. Social Well-being measures people's experiences of supportive relationships and sense of trust and belonging with others (fig. 1.)

(<http://www.nationalaccountsofwellbeing.org/>). Nef's report “National Accounts of Well-being” covers 22 European countries without examining Russia.

Secondly, subjective wellbeing is divided into several species, depending on the branches of science that studies the person and his wellbeing and therefore the set of parameters included in the analysis. The theoretical review showed that the following types of subjective wellbeing are considered in the literature: physical wellbeing (Scheier M.F. & Carver C.S., 1992), emotional well-being (Kahneman D. & Deaton A., 2010; Fredrickson B.L. & Joiner T., 2002), mental well-being (Gardner, J. & Oswald A.J., 2007), psychological well-being (Scheier M.F. & Carver C.S., 1992), personal (<http://www.nationalaccountsofwellbeing.org/>), social well-being (website of Nef; Keyes, C.L.M., 1998), financial well-being (Gerrans, P., Speelman, C., & Campitelli, G., 2014; Kim, J., Garman, E.T., & Sorhaindo, B., 2003).

It should be noted that the terms “mental”, “psychological” and “emotional” wellbeing are very close and have different coloring depending on the context of studies. But we use them as interchangeably.

Let's consider the concept of wellbeing from the position of a particular person. Different types of wellbeing are the characteristics of the personal condition. In this context, the following types of wellbeing become notional: physical, psychological (including emotional and mental), social and financial well-being, which together account for subjective or personal wellbeing.

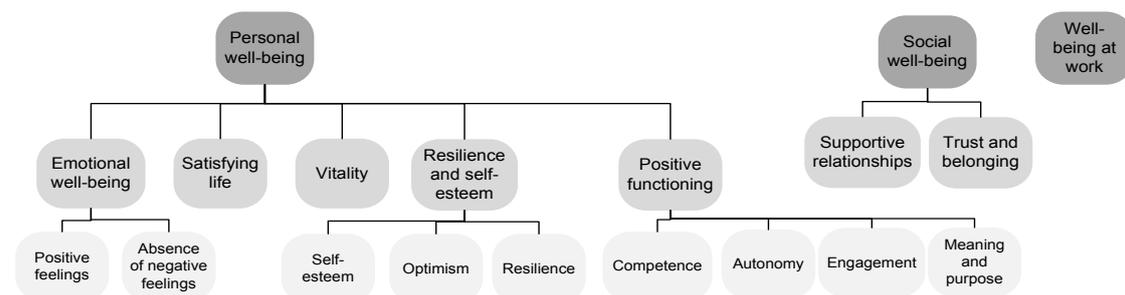


Fig. 1. Indicator structure within the example national accounts framework [according to Nef]

Physical wellbeing means feeling very healthy and full of energy, the absence of chronic diseases, healthy sleep and regular moderate physical activity, exercises. Of course, physical health is connected to mental and emotional health.

Psychological well-being integrates two conceptions: emotional well-being and life evaluation. Emotional well-being (sometimes called hedonic well-being or experienced happiness) refers to the emotional quality of an individual's everyday experience – the frequency and intensity of experiences of joy, fascination, anxiety, sadness, anger, and affection that make one's life pleasant or unpleasant. Life evaluation refers to a person's thoughts about his or her life (Kahneman D. & Deaton A., 2010).

The social well-being indicator measures how people experience their connections with others and the strength of those relationships. It is comprised of two component indicators which measure supportive relationships and trust and belonging (Keyes, C.L.M., 1998).

Financial well-being is a function of individual characteristics, financial behaviors, and financial stressor events. Financial well-being also is an outcome of financial behaviors (Kim, J., Garman, E.T.,

& Sorhaindo, B., 2003). Also terms “financial wellness”, “financial satisfaction” are used in the researches as close notions. Figure 2 depicts conceptual framework of personal financial wellness. Personal financial wellness is composed of four sub-components: objective status; financial satisfaction; financial behavior; and subjective perception. Conceptually, financial wellbeing taps into the broader range of subjective and objective dimensions as financial wellness does, but has invariably been operationalized as a subjective measure only, more in keeping with financial satisfaction (Gerrans, P., Speelman, C. & Campitelli, G., 2014).

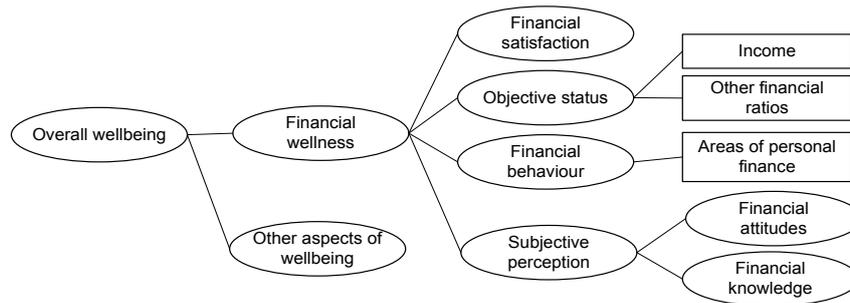


Fig. 2. Model of financial wellness [Gerrans, P., Speelman, C., & Campitelli, G., 2014]

### 3. Conception of our research: Types of wellbeing and types of capital

Person forms various kinds of capital during his life including human capital, social capital, capital, physical and financial capital.

Human capital is a set of knowledge, skills and experience of the person, his character, personal qualities.

Social capital is a set of mutual expectations that the members of the social network share available resources and capabilities at the right time (Barsukova S.Yu., 2012). In other words, social capital includes relationships of individuals as friendships, family and career, scope of activities and business circle.

Physical health capital includes life force to carry out daily routine, sound sleep, absence of diseases, etc. Physical health is largely determined by genetic factors and outcomes of the costs on food, lifestyle, regular charging, etc. Basic parameters of physical health and regular expenditure of physical energy require regular monitoring and control (Zemtsov A.A. & Osipova T.Y.u, 2011)

Financial capital is a set of financial assets.

In this case we operate two concepts of the nature of capital: physical nature (capital as a set of resources) and financial (capital as a set of funds) (Kovalev V.V., 2012). Physical health capital, human capital and social capital have a physical nature and are a collection of resources. Financial capital has financial nature and represents certain funds and assets, and is a source of resources and benefits.

The existence of capital in various forms is discussed in the Pierre Bourdieu's paper. Depending on the field in which it functions, and at the cost of the more or less expensive transformations which are the precondition for its efficacy in the field in question, capital can present itself in three fundamental guises: as economic capital, which is immediately and directly convertible into money and may be

institutionalized in the forms of property rights; as cultural capital, which is convertible, on certain conditions, into economic capital and may be institutionalized in the forms of educational qualifications; and as social capital, made up of social obligations (“connections”), which is convertible, in certain conditions, into economic capital and may be institutionalized in the forms of a title of nobility (Bourdieu, P. ,1986).

The presence of a particular capital allows us to speak about the appropriate type of subjective wellbeing. For example, the presence of human capital in the form of a prestigious education, a successful career and satisfaction in the workplace allows us to talk about the psychological well-being of a person. Conversely, it is not correct to speak about any form of well-being in the absence of the relevant type of capital. The lack of social contacts, friends as components of social capital does not allow us to speak about social well-being.

In turn, human, social and physical capitals are components of the basic asset (Zemtsov A.A. & Osipova T.Y.u, 2011), which determines and generates a flow of income of individuals or households. The revenue flow, its size and regularity, along with financial behavior, financial literacy, financial preferences and values, financial management form the financial well-being. The structure of our conception about connection types of wellbeing and forms of capital is pictured on figure 3.

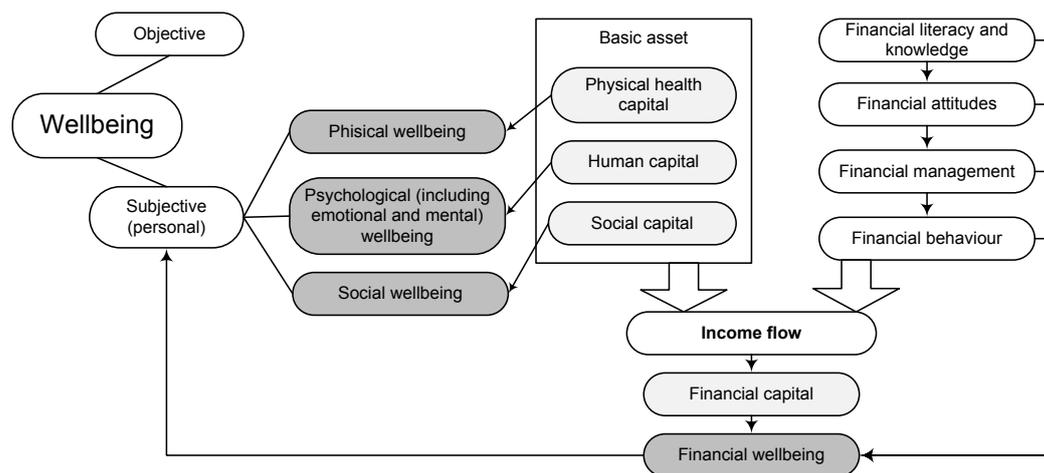


Fig. 3. Our conception of subjective (personal) wellbeing

In our opinion not any income flow allows us be well in all implications (values). We offer to determine the amount of income that allows us to live and develop in the Russian context.

We propose to use the group regulatory settlement indicators: subsistence minimum, a restorative consumer budget and middle-class budget (Zemtsov A.A., 2011). Subsistence minimum includes the minimum set of products required to ensure human life. The essence of subsistence minimum is to provide energy for basal metabolism. The subsistence minimum can be considered a lower income limit for non-working household member. In the first quarter of 2015 the subsistence minimum per capita was 8 716 rub. (Bobkov V.N., Gulyugina A.A., 2015).

But the main source of income in the Russian Federation is the wages. Additional (to the subsistence minimum) energy expenditure is necessary to get the wage and we speak about simple reproduction. In this case the indicator of a restorative consumer budget is necessary to use. If a working householder has the income in the amount of the restorative consumer budget he can expend energy on work and

work again restoring energy. The size of the restorative consumer budget allows to satisfy human needs in nutrition at the minimum required level and buy wider range (and with more reasonable terms of service) of non-food goods and paid services than in the composition of the subsistence minimum and provides a restorative level of consumption (Bobkov V.N., Gulyugina A.A., 2015). In the first quarter of 2015 the restorative consumer budget per capita was 22 275 rub. (Bobkov V.N., Gulyugina A.A., 2015). Thus the availability of income per capita in the household on the restorative consumer budget level and above allows us to talk about the satisfaction of basic needs and achieving the basic wellbeing.

But the goal of the person (householder) is not to work in order to restore its health. Therefore wellbeing starts from the next level of income indicator when person can let himself go a bit out of the realm of necessity and to engage in consumption and personal development. We are talking about a middle-class budget. It allows living in the true sense of the word and developing. The middle-class budget includes the most common consumer complexes that characterize the average level of consumption. In the first quarter of 2015 the middle-class budget per capita was 56 949 rub. (Bobkov V.N., Gulyugina A.A., 2015).

From the point of view of household finance these calculations should take into account the building up reserves, insurance protection, liabilities, debts and compulsory payments. Thus we come to the person who runs his life, engaged in self-management. His existence is more than just biological and involves the development of personality, life-cycle management. The use of market mechanisms to manage life and income is possible with a certain amount of income, therefore the proposed indicators has framework character (fig. 4.).

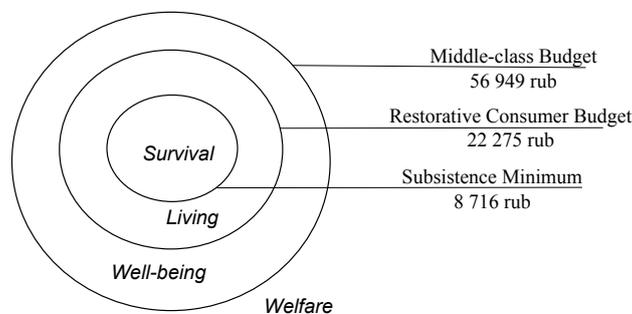


Fig. 4. Wellbeing framework Indicators

We do not reduce the concept of subjective (personal) wellbeing only to the amount of the income flow. We agree with Kahneman D. & Deaton A., 2010 that not only money defines subjective wellbeing. But we believe that there is a level of income, which is inappropriate to talk about wellbeing, it is more logical to talk about survival. Such benchmarks can be subsistence minimum, restorative consumer budget and middle-class budget in Russia.

The concept of personal wellbeing cannot be considered separately from household wellbeing. The number of households consisting of one person according to the results of the census of 2010 amounted to 9.95% of the total number of private households in Russia [Russian Population Census - 2010]. So most people live in families – households. Personal wellbeing of each member depends on the

wellbeing of other household members, family relationships, and also is influenced by forms of men and women living (Zemtsov A.A., 2015).

This thesis in particular is confirmed by the Longevity Project of Howard S. Friedman and Leslie R. Martin (Friedman H.S. & Martin L.R., 2011). Their research showed that longevity is based on wellness and is reached by a four-part lifestyle. So, wellness includes: traditional physical and mental health; a successful career, a happy marriage and social interactions.

This concept is sufficiently representative, it is based on a longitudinal survey of about a thousand members of the middle class and complemented by a thorough examination of their main life spheres and a detailed analysis of the causes of death and life time (Friedman H.S. & Martin L.R., 2011).

#### 4. Conclusion

Generally, the concept of well-being is subjective. Even when the wellbeing of society is measured, different indicators are used in the subjective assessment of the members of society. Therefore, it is suitable to use the term “personal wellbeing” speaking about the subjective and individual well-being. Personal well-being consists of physical, psychological (including emotional and mental), social and financial well-being. All components of wellbeing are connected with each other and closely related, as well as with types of capital possessed by the person (physical health, capital, social and financial capital). To talk about any form of personal wellbeing it is necessary to show the presence of the relevant capital type of person. The combination of capitals of person (physical health, human and social capital), which forms its basic asset, generates a certain income flow. The income flow is the basis for the financial capital formation (in the light of the concept of physical capital as the set of the funds). Financial capital is an objective feature of financial wellbeing.

Thus financial wellbeing defines by financial behaviour and income flow generated by basic asset. Financial behaviour is outcome of financial literacy and knowledge, financial attitudes and financial management.

In turn, personal financial wellbeing is also interrelated closely with various aspects of household finance: the amount of income of all members, the number of household members and number of dependents, financial behaviour, preferences, attitudes of household members, household financial management, financial goals and their unity by financial management.

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