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The relationship between emergency savings, financial well-being, and financial stress

- Emergency savings can help households mitigate financial uncertainties, such as unexpected expenses or potential income losses. In this paper, we explore the relationship between emergency savings, financial well-being, and financial stress.
- **Emergency savings are the strongest predictor of financial well-being.** Our findings show that having at least $2,000 in emergency savings is associated with a 21% higher level of financial well-being versus not having any emergency savings. Having at least three to six months of expenses saved on top of the initial $2,000 is associated with an additional 13% boost to financial well-being, even after taking into account income, debt type, and financial assets.
- **Investors without emergency savings spend nearly twice as much time on their finances.** Vanguard clients without emergency savings spend 7.3 hours per week thinking about and dealing with their finances, compared with 3.7 hours for clients with at least $2,000 in emergency savings.
- **Workers without emergency savings have lower productivity because of financial stress.** Working clients without emergency savings spend four times as many hours per week distracted by their financial stress at work, compared with working clients who have at least $2,000 in emergency savings (6.1 hours per week for those without emergency savings versus 1.5 hours per week for those with emergency savings).
- **Clients without emergency savings are three times more likely to report increased financial stress year over year.** Only 15% of clients with at least $2,000 in emergency savings reported an increase in financial stress year over year, compared with 51% of clients without emergency savings. This underscores the importance of emergency savings in managing financial setbacks and financial stress.

Introduction

Emergency savings are a cornerstone of sound financial planning. They allow households to mitigate the impact of adverse financial events, such as unexpected expenses or potential job loss. For adequate emergency savings, Vanguard suggests that families have a cash buffer of at least $2,000 or half of a month's expenses, whichever is more. This is to protect against unexpected costs. Additionally, families should aim to accumulate about three to six months of expenses in accessible assets to mitigate the effects of potential income interruption, including job loss (Felton, 2023).

However, a recent survey by the Federal Reserve Board found that 36% of American households said they would not be able to pay for an unexpected $400 expense (Bhutta et al., 2020). Other researchers have documented that wealthier families may still live "hand to mouth," suggesting the importance of and need to establish adequate emergency savings, even among households that invest (Kaplan, Violante, and Weidner, 2014). This significant gap between the recommended levels of emergency savings and the amount of emergency cash available to many American families can lead to multiple risks, including a lower level of financial well-being, increased financial stress, and the inability to withstand unexpected expenses or income loss.[1]

In this paper, we report our findings on the relationship between adequate levels of emergency savings, financial well-being, and financial stress. We define two levels of emergency savings: a cash buffer of at least $2,000 for unexpected expenses and a reserve of at least three to six months of expenses to help mitigate potential income loss.[2] For financial well-being, the distinction between unexpected expenses and income loss is important because small, unexpected expenses tend to happen to most American families every year, whereas income loss is less likely to occur but may have a more severe and lasting impact to financial well-being (Pew Charitable Trusts, 2015; Lin et al., 2022).

We also explore the time investors spend dealing with financial stress, both in their daily lives and in the workplace, and show how having adequate emergency savings is associated with significantly lower stress. Our findings should matter for individuals, plan sponsors, and public policy, as Americans report that personal finance problems affect their mental health, self-esteem, and productivity and attendance at work (PwC, 2023).

Finally, using our rich data, we discuss whether having emergency savings benefits one group over another. For example, we explore whether employment status (working versus retired, due to differences in cash flow and flexibility) or advice status (self-directed versus advised clients, due to differences in preparation or guidance) affects outcomes.

1 In *Financial Well-Being: The Goal of Financial Education (2015a)*, the Consumer Financial Protection Bureau (CFPB) defines financial well-being as "a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow enjoyment of life."

2 Recent work on the topic has mostly focused on only one of the uses of emergency savings: protecting households against unexpected expenses. For example, economists have recently documented a strong relationship between financial stress and the ability to access $2,000 in emergency savings (Sergeyev, Lian, and Gorodnichenko, 2024). Similarly, the CFPB finds that even small amounts of savings can help consumers weather financial shocks. The study investigates the relationship between different levels of emergency savings (no emergency savings, less than a month of income saved for emergencies, and at least a month of income saved for emergencies), measures of financial access (that is, access to a checking or savings account, nonretirement savings, and retirement savings) and measures of financial constraints (that is, credit availability, debt levels, missing bill payments, and retirement withdrawals) (Consumer Financial Protection Bureau, 2022).

How we measured financial well-being and financial stress

To investigate the relationship between emergency savings and financial well-being, we fielded a survey with 12,443 Vanguard investors in July 2024.[3] **Appendix 1**, on page 11, shows the detailed demographics and financial characteristics of the investors in our sample. To measure financial well-being, we leveraged the CFPB's Financial Well-Being Abbreviated Scale (Consumer Financial Protection Bureau, 2015b). To measure financial stress during work and in everyday life, we utilized the metrics from *The Economics of Financial Stress* (Sergeyev, Lian, and Gorodnichenko, 2024). To measure changes in financial stress year over year, we adapted a question from the American Psychological Association's annual survey *Stress in America 2023: A Nation Recovering From Collective Trauma* (2023). Finally, for emergency savings, we adapted a measure for unexpected expenses from the Financial Industry Regulatory Authority's *2021 National Financial Capability Study State-by-State Survey Instrument* (2021) and created a question that would measure total level of emergency savings.[4] See **Appendix 2**, on page 12, for detailed descriptions of the measurements used.

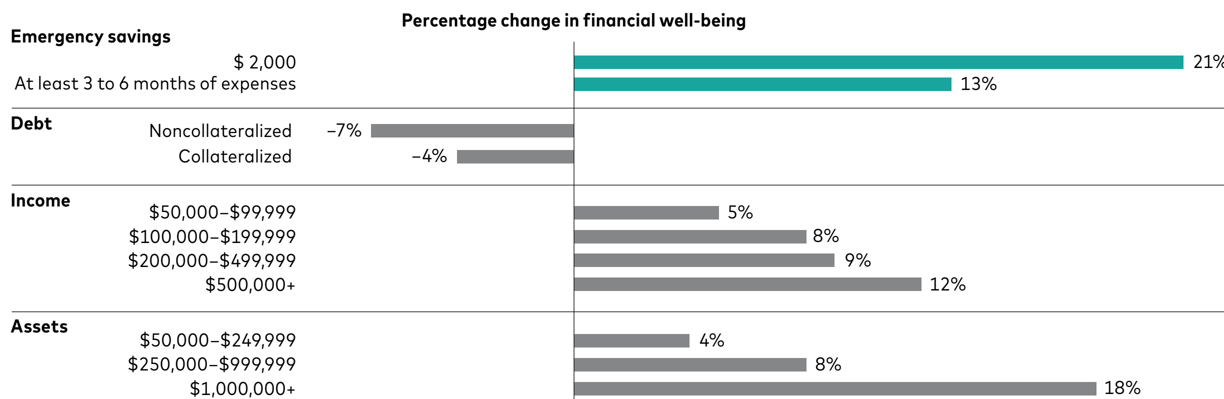
The relationship between emergency savings and financial well-being

Emergency savings can help families weather unexpected expenses or potential shocks to household income, helping them meet financial obligations, which then contributes to financial well-being. Of Vanguard investors, 83% have savings of at least $2,000 and 71% have at least three to six months of expenses set aside for emergencies.[5]

Figure 1 presents the results of the regression framework relating financial well-being to emergency savings. We found that emergency savings are the strongest predictor of financial well-being, even after considering household income, financial assets, debt type, and other investor demographics in a regression framework.

FIGURE 1

Emergency savings are associated with a substantially higher level of financial well-being



Notes: The model above shows a regression framework demonstrating the relationship between the CFPB Financial Well-Being Scale score and indicator variables for two levels of emergency savings (at least $2,000 and at least three to six months of expenses), collateralized and noncollateralized debt, household income, and amount of financial assets. The framework used also includes gender, level of education, and family structure. All coefficients are significant at the 1% level. The sample size is 12,443. The baseline group is composed of clients without either $2,000 in emergency savings or three to six months of expenses saved, with no debt, income less than $50,000, and assets totaling less than $50,000. The average financial well-being score for the baseline group is 42.3.

Source: Vanguard.

3 Our sample of investors skews male, older, and with a higher household income and total amount of financial assets than a representative sample of the U.S. population (Consumer Financial Protection Bureau, 2017). However, given our large sample size, we include numerous individuals across different segments of demographic characteristics.

4 We also included questions about the value of financial advice in the survey. The results of that portion will be published in a separate research paper.

5 Appendix 1 includes a detailed breakdown of emergency savings by each group we studied: advised, self-directed, working, and retired investors.

Figure 1 shows that having at least $2,000 in emergency savings is associated with a 21% higher financial well-being score than the baseline of 42.3. Having at least three to six months of expenses saved on top of the initial $2,000 is associated with an additional 13% increase. Overall, having both $2,000 and three to six months of expenses in emergency savings is associated with a 34% higher financial well-being score.

Unsurprisingly, we find that debt predicts lower levels of financial well-being, especially noncollateralized debt, such as payday loans and credit cards. We also find that income and financial assets are positively related to financial well-being, as found in related literature (Killingsworth, Kahneman, and Mellers, 2023).

Interestingly, the relationship between financial well-being and having at least $2,000 in emergency savings is similar in size to having more than $1,000,000 in financial assets. This suggests that having even a small amount of emergency savings is linked to a significantly higher level of financial well-being. Additionally, having the equivalent of at least three to six months of expenses saved has a similar association with financial well-being as having a household income of $500,000. These results suggest a potent relationship between emergency savings and financial well-being.

Financial stress: Time spent thinking about finances

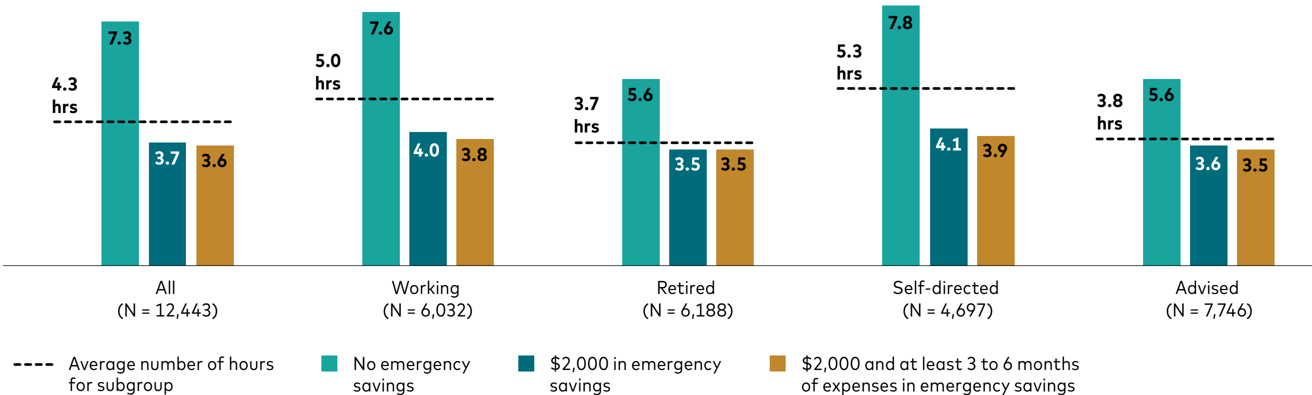
In the previous section, we documented that investors with emergency savings feel significantly better about their finances. In this section, we will look at the other side of the coin, investigating whether not having emergency savings may be associated with some metrics of financial stress. We begin by looking at the time investors spend thinking about and dealing with their household finances. For reference, a representative sample of Americans reports spending an average of 7.7 hours per week on financial matters (Sergeyev, Lian, and Gorodnichenko, 2024).

Figure 2 shows that investors without any emergency savings spend an average of 7.3 hours per week on financial concerns, while those with at least $2,000 in emergency savings spend only 3.7 hours. This stark difference suggests the importance of having a financial safety net, as it is associated with a smaller mental burden related to financial matters.

FIGURE 2

Investors without emergency savings spend more time thinking about and dealing with their finances

Time spent on financial matters in hours per week



Notes: The question used to measure time spent thinking about and dealing with household finances was "In a typical week, how many hours do you spend thinking about and dealing with issues related to your household's finances?" As in Sergeyev, Lian, and Gorodnichenko (2024), the answers were capped at 20 hours per week to reduce measurement error. N stands for sample size.

Source: Vanguard.

The average Vanguard investor spends over four hours per week thinking about and dealing with their finances. However, that number varies across different subgroups. Working and self-directed clients spend between 5.0 and 5.3 hours per week on their finances, while retired and advised clients only spend between 3.7 and 3.8 hours. This is consistent with the data in Appendix 1 indicating that these groups tend to be wealthier and more likely to have emergency savings, and are therefore less likely to experience financial stress and its consequences.

Figure 2 also reveals a consistent, significant disparity in time spent on financial matters between clients with emergency savings compared with those without emergency savings across the four subgroups.

Emergency savings may be linked to other household characteristics, such as income and financial assets. These may affect the accompanying level of financial stress. Using a regression model, we parsed the association between time spent thinking about finances and level of emergency savings, controlling for household income, financial assets, debt type, and other investor demographics.

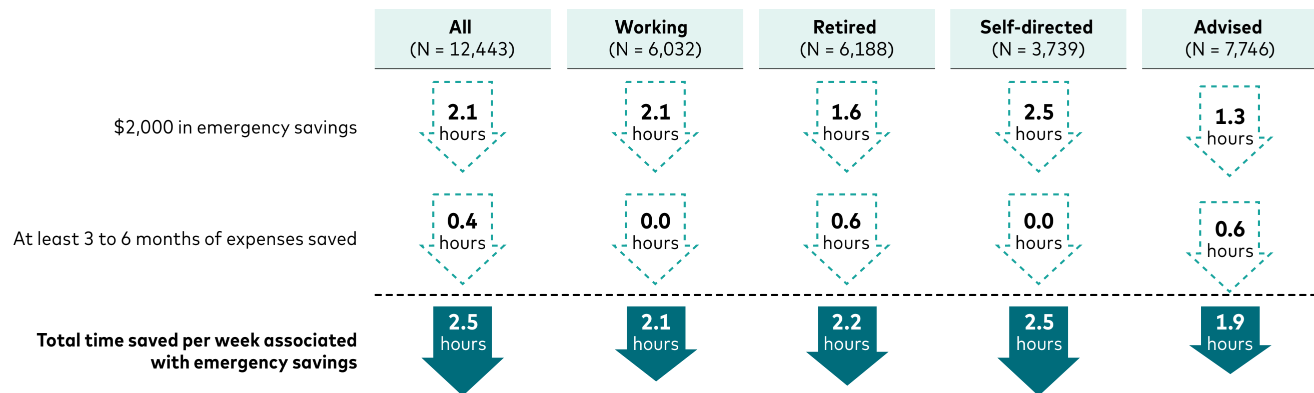
Figure 3 shows that having emergency savings is associated with spending 2.5 fewer hours thinking about and dealing with household finances. In fact, individuals with at least $2,000 in emergency savings spend 2.1 fewer hours per week thinking about finances compared with those without any savings. The findings are consistent on two levels.

First, across the subsamples, the association between having emergency savings and the reduction in time thinking about finances, between 1.9 and 2.5 hours, is quantitatively similar. Second, the bulk of the result comes from having accumulated the initial $2,000 in emergency savings. These findings suggest the consistency in the relationship between having at least $2,000 in emergency savings and lower financial stress.

FIGURE 3

Having emergency savings is associated with spending 2.5 fewer hours per week thinking about finances

Time saved on financial matters in hours per week



Notes: This figure represents a regression framework demonstrating the relationship between time spent thinking about and dealing with finances and emergency savings. The framework uses indicator variables for two levels of emergency savings (at least $2,000 and at least three to six months of expenses), collateralized and noncollateralized debt, household income, amount of financial assets, gender, education level, and family structure. The coefficients reported above are for the indicator variables representing clients who have at least $2,000 in emergency savings and at least three to six months of expenses saved. The sample size for each regression is reported at the top. All coefficients are significant at the 1% level, except for those that are reported as 0.0 hours, which are negative but do not have a statistically significant difference from 0. The baseline group represents clients who do not have $2,000 in emergency savings or three to six months of expenses saved, have no debt, have less than $50,000 in income, have less than $50,000 in assets, are male, have some college or an associate's degree, and are not married. The baseline hours per week for all respondents was 8 hours (8.6 hours for working, 7.2 for retired, 8.2 for self-directed, and 5.1 for advised). N stands for sample size.

Source: Vanguard.

Financial stress at work: Time distracted in the workplace

When employees are worried about their finances, they may have trouble focusing on their work, which can make them less productive (Kaur et al., 2024). In this section, we will study how people are distracted in their jobs by their financial stress and whether emergency savings are associated with fewer distractions in the workplace.

Figure 4 shows our finding that individuals without any emergency savings spend an average of 6.1 hours per week at work distracted by financial stress. This is similar to the finding from Sergeyev, Lian, and Gorodnichenko (2024) that a representative sample of American workers spend 6.4 hours distracted at their jobs because of financial stress. In contrast, those who have at least $2,000 in emergency savings spend only 1.5 hours per week distracted by financial stress.

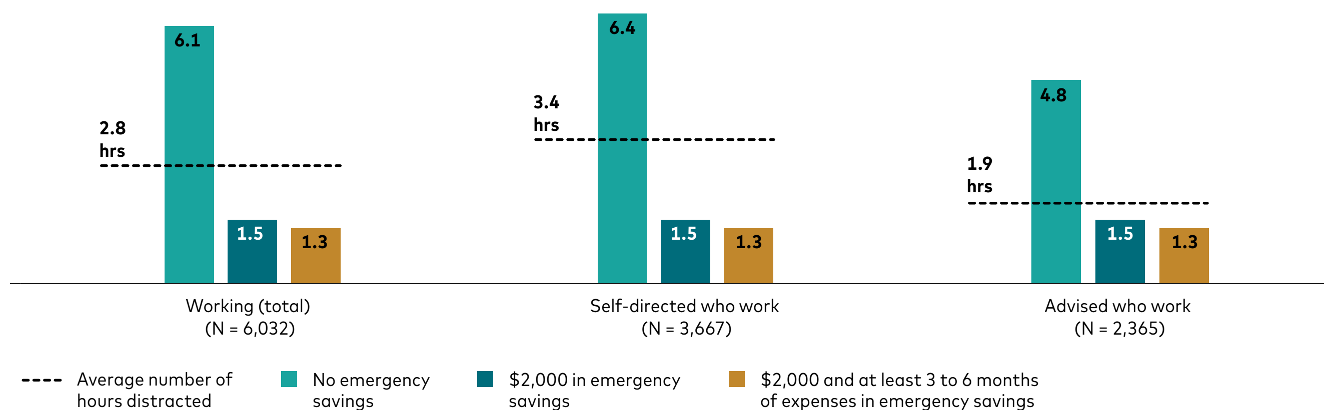
Overall, individuals in our sample spend 2.8 hours per week distracted at work, which is approximately 7% of their time there. For those clients without at least $2,000 in emergency savings, the distraction due to financial stress corresponds to 15% of their time at work. These findings indicate that having adequate emergency savings is not only associated with reduced financial stress in daily life but also with fewer distractions and higher productivity at work.

However, emergency savings are not the only household financial characteristic that may impact distraction related to financial stress at work. In fact, other variables, such as household income, financial assets, and debt type, may drive the relationship instead of the amount of emergency savings. To more effectively analyze the relationship between time spent at work distracted by financial stress and emergency savings, we used a regression model that also accounted for household income, financial assets, types of debt, and various other investor demographics.

FIGURE 4

Investors without emergency savings are more distracted by financial stress in the workplace

Time distracted at work due to financial stress in hours per week



Notes: The question used to measure time spent at work distracted by financial stress was "In a typical week, how many working hours are you distracted by your financial stress?" As in Sergeyev, Lian, and Gorodnichenko (2024), the answers were capped at 20 hours per week to reduce measurement error. N stands for sample size.

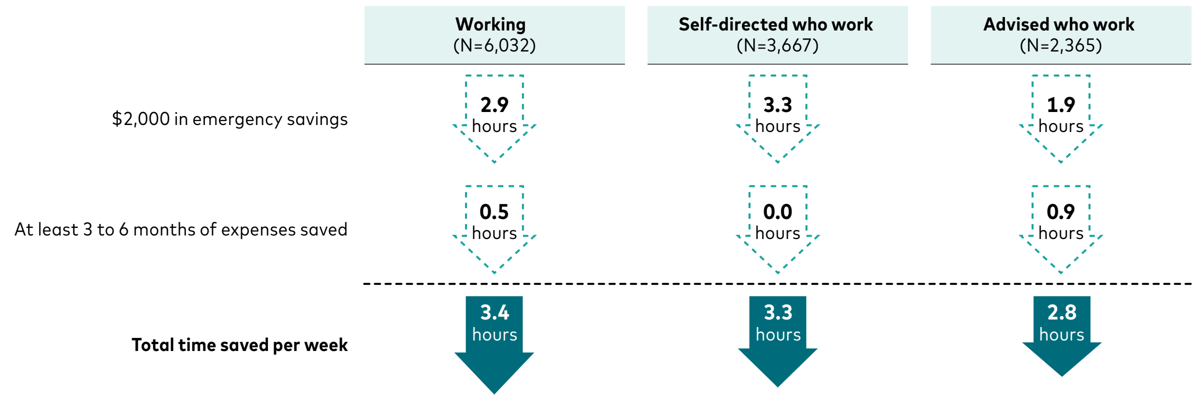
Source: Vanguard.

In **Figure 5**, we demonstrate that having emergency savings is associated with spending 3.4 fewer hours per week distracted by financial stress in the workplace. Note that the bulk of the effect comes from having at least $2,000 in emergency savings. This reduction in distraction is similar across different subgroups, highlighting the relationship between emergency savings and workplace focus and productivity.

FIGURE 5

Workers with emergency savings are less distracted on the job

Time saved from financial stress at work in hours per week



Notes: This figure demonstrates the relationship between the amount of time spent in the workplace distracted by financial stress and emergency savings. The framework uses indicator variables for two kinds of emergency savings (at least $2,000 and at least three to six months of expenses), collateralized and noncollateralized debt, household income, amount of financial assets, education level, gender, and family structure. The coefficients reported above are for the indicator variables representing clients who have at least $2,000 in emergency savings and at least three to six months of expenses saved. The sample size for each of the three regressions is noted at the top. All coefficients are significant at the 1% level, except for one that is reported as 0.0 hours, which is negative but does not have a statistically significant difference from 0. The baseline group represents clients who do not have either $2,000 in emergency savings or at least three to six months of expenses saved, have no debt, have less than $50,000 in income, have less than $50,000 in assets, are male, have some college or an associate's degree, and are not married. The baseline hours per week is 8.8 hours for working respondents, 9.2 hours for self-directed who work, and 6.6 hours for advised who work. N stands for sample size.

Source: Vanguard.

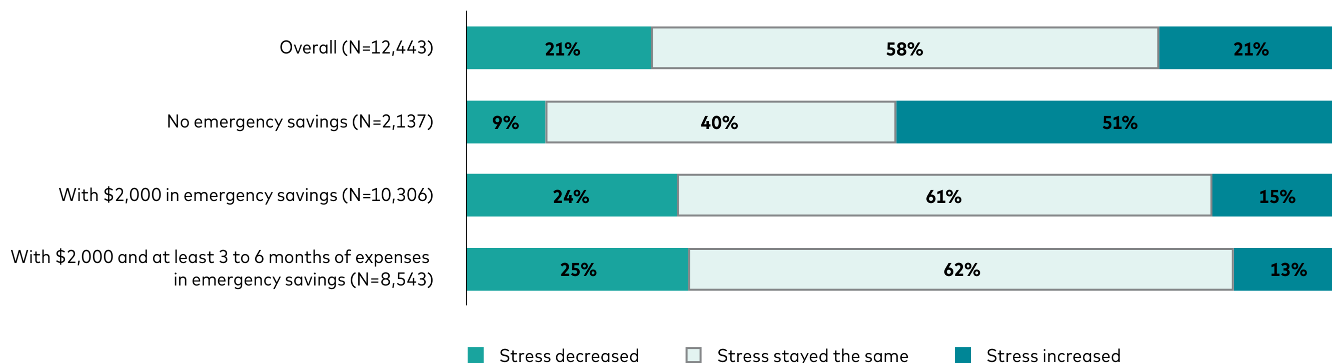
Changes in financial stress year over year

Emergency savings are meant to protect against unexpected costs and possible decreases in household income. They also help to reduce the need for emergency financing options that may be costly. Given the role of emergency savings in a financial plan, we investigated whether having emergency savings correlates with changes in financial stress year over year by adapting a survey question used by the American Psychological Association for its report, *Stress in America 2023: A Nation Recovering From Collective Trauma*.[6]

Figure 6 shows that 51% of individuals without emergency savings reported that their financial stress increased year over year. However, only 15% of individuals with at least $2,000 in emergency savings reported an increase in stress. Similarly, 13% of people with at least $2,000 in emergency savings and at least three to six months of expenses saved reported an increase in stress. These findings suggest that having emergency savings is associated with a smaller increase in financial stress year over year, indicating that emergency savings can act as a buffer against adverse financial events and their psychological consequences.

FIGURE 6

Investors without emergency savings are three times more likely to report an increase in stress than in the previous year



Note: The question used to measure change in financial stress was "Has financial stress in your household increased, decreased, or stayed the same over the past year?" N stands for sample size.

Source: Vanguard.

6 For the purposes of our survey, we replaced the word "strain" from the American Psychological Association survey with "stress."

Conclusion

People with emergency savings tend to have a higher level of financial well-being, spend less time thinking about and dealing with their finances, are less distracted at work, and are less likely to experience increased financial stress over time. Overall, the findings suggest that emergency savings play a critical role in supporting financial stability.

Our findings also suggest that small steps may make a big difference in a household's finances. They indicate that the strongest predictor of financial well-being and lower financial stress is having at least $2,000 in emergency savings, even after accounting for other key financial characteristics. These findings should matter for plan sponsors, policymakers, and investors and their advisors.

For plan sponsors, one opportunity could be to test the effect of offering emergency savings as an employee benefit and measure whether the benefit increases financial well-being and productivity and decreases financial stress. In our study, workers without emergency savings reported spending over six working hours per week (or 15% of their time at work) distracted by their financial stress. This adds up to over 300 hours per year of distraction. Considering an employee's total compensation, the loss in productivity as a result of financial stress is likely higher than the potential employee benefit of an employer-provided emergency savings fund of $2,000. Other dimensions to measure would be a potential reduction in employee absenteeism (due to reduced stress) and fewer employer retirement plan withdrawals and loans (due to increased liquidity), as mentioned in Greig, Goodman, and Hahn (2024).

For policymakers, facilitating a larger emergency withdrawal as part of an employer's retirement or benefits plan may be beneficial to workers. Currently, as part of the SECURE 2.0 Act, plan participants may take a maximum of $1,000 per year in penalty-free emergency withdrawals. However, most families face emergency expenses that are higher than that maximum (Farrell, Greig, and Yu, 2019). Even though we did not seek to identify the optimal amount, we did identify a strong relationship between higher amounts of emergency savings (in this case, at least $2,000) and financial well-being.

Finally, for investors and their advisors, the simple step of having adequate emergency savings could be a powerful way to increase financial well-being, reduce financial stress, and strengthen financial security. When setting aside emergency savings, investors must also continue taking steps to enhance their overall financial wellness, which include budgeting effectively, managing debt, and investing for future goals (Costa and Felton, 2022).

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Appendix 1: Demographics

Our survey included 12,443 Vanguard clients. The sample was composed of 61% male and 35% female respondents.[7] The age distribution was skewed toward older individuals: 69% were age 55 or older, 22% were between ages 36 and 55, and 8% were age 36 or younger. In terms of household income, the majority reported income in the $50,000 to $199,999 range: 31% reported income in the $50,000 to $99,999 range, and 33% reported income in the $100,000 to $199,999 range. Additionally, 13% reported income less than $50,000, and 15% reported income of $200,000 or more. Financial assets were more evenly distributed, with 22% of respondents self-reporting assets between $0 and $249,999, 30% between $250,000 and $999,999, and 34% above $1,000,000.

FIGURE 10

Survey demographics

		All	Working	Retired	Self-directed	Advised
Number		12,443	6,032	6,188	4,697	7,746
Percentage		100%	48%	50%	38%	62%
Gender	Male	61%	61%	62%	60%	62%
	Female	35%	34%	35%	35%	35%
Age	Less than 25	1%	1%	0%	2%	0%
	26–35	7%	14%	0%	16%	2%
	36–45	10%	21%	0%	22%	4%
	46–55	12%	24%	1%	22%	7%
	55+	69%	39%	99%	38%	88%
Household income	Less than $50,000	13%	10%	14%	15%	12%
	$50,000–$99,999	31%	27%	35%	31%	32%
	$100,000–$199,999	33%	35%	32%	32%	34%
	$200,000–$499,999	13%	19%	8%	14%	13%
	$500,000 or more	2%	3%	1%	2%	2%
Financial assets	Less than $50,000	8%	16%	1%	19%	2%
	$50,000–$249,999	14%	21%	8%	23%	10%
	$250,000–$999,999	30%	27%	33%	25%	33%
	$1,000,000 or more	34%	24%	44%	17%	45%
Emergency savings	$2,000	83%	71%	94%	67%	93%
	At least to 3 to 6 months	71%	57%	84%	53%	81%

Notes: Advised clients include those using human and digital advisors. For gender, additional options included "other" and "prefer not to say." For household income, the additional option was "prefer not to say." For financial assets, additional options included "not sure" and "prefer not to say." Numbers may not add up to 100% because survey participants were given these additional options.

7 Demographic statistics may not add up to 100% because survey participants had the option of selecting "prefer not to say" and "other."

The working and retired groups exhibited notable differences. The working group had a higher percentage of younger individuals, with 14% between ages 26 and 35 and 21% between ages 36 and 45, compared with the retired group, which had a significantly higher percentage of individuals age 55 and older. The working group had a higher concentration in the middle- and high-income brackets, with 35% earning between $100,000 and $199,999. The retired group had a higher concentration in the lowest income bracket, as many no longer earn an income from wages. For financial assets, the working group had fewer financial assets than their retired counterparts, as they are still in the accumulation phase of their financial lives.

The self-directed and advised groups also showed significant differences. The advised group was overwhelmingly wealthier; 45% had at least $1,000,000 in financial assets, whereas only 17% of the self-directed group had that amount. In terms of age, the advised group skewed older; 88% were age 55 or older. The self-directed group had a more even distribution; 18% were younger than 35 years old, 22% were between ages 36 and 45, 22% were between ages 46 and 55, and 38% were age 55 or older.

Appendix 2: Detailed measurements

Our survey utilized different metrics available in published literature, including financial well-being, financial stress, and measures for adequate emergency savings to cover both unexpected expenses and potential job loss.[8]

Financial well-being

To measure the level of financial well-being, we used the CFPB Financial Well-Being Abbreviated Scale, which asks five questions (Consumer Financial Protection Bureau, 2015b). The scale produces a financial well-being score between 0 and 100 and has been validated by a representative sample of individuals living in the U.S. (Consumer Financial Protection Bureau, 2015a).

FIGURE 11

CFPB Financial Well-Being Abbreviated Scale

Part 1: How well does this statement describe you or your situation?

This statement describes me	Completely	Very well	Somewhat	Very little	Not at all
1. Because of my money situation, I feel like I will never have the things I want in life	☐	☐	☐	☐	☐
2. I am just getting by financially	☐	☐	☐	☐	☐
3. I am concerned that the money I have or will save won't last	☐	☐	☐	☐	☐

Part 2: How often does this statement apply to you?

This statement applies to me	Always	Often	Sometimes	Rarely	Never
4. I have money left over at the end of the month	☐	☐	☐	☐	☐
5. My finances control my life	☐	☐	☐	☐	☐

Note: This portion of the CFPB Financial Well-Being Abbreviated Scale is presented for reference only.
Source: Consumer Financial Protection Bureau, 2015b.

8 We also included questions about the value of financial advice in the survey. The results of that portion will be published in a separate research paper.

Emergency savings

We deployed two questions to measure the adequacy of emergency savings for different kinds of financial hardships, specifically unexpected expenses and threats to household income.

- **Unexpected expenses:** How confident are you that you could find the money to pay for an emergency that costs about $2,000?
  - Possible answers: not at all; somewhat confident; or entirely confident.[9]
- **Total value for emergency savings:** How much money do you have that could be used as emergency savings?
  - Possible answers: none; less than one month of expenses; between one and three months of expenses; between three and six months of expenses; or more than six months of expenses.

Consequences of financial stress

We utilized two questions from *The Economics of Financial Stress* by Sergeyev, Lian, and Gorodnichenko (2024) to investigate how much time people spend thinking about their finances in both their overall lives and during work hours:[10]

- **Time spent on finances:** In a typical week, how many hours do you spend thinking about and dealing with issues related to your household's finances?
- **Time distracted by financial stress at work:** In a typical week, how many working hours are you distracted by your financial stress?

To measure changes in financial stress year over year, we adapted an additional question from the American Psychological Association's survey *Stress in America 2023: A Nation Recovering From Collective Trauma* (2023).

- **Changes in financial stress:** Has financial stress in your household increased, decreased, or stayed the same over the past year?[11]
  - Possible answers: increased; stayed the same; or decreased.

9 This question is based on FINRA's *2021 National Financial Capability Study State-by-State Survey Instrument* (2021).

10 Our survey was deployed the week following the Fourth of July holiday weekend in the United States, so we slightly adjusted the wording of the questions used by Sergeyev, Lian, and Gorodnichenko. Instead of "over the past week," as was used in the original study, we used "in a typical week," given our proximity to the holiday.

11 For the purposes of our survey, we replaced the word "strain" from the original survey with "stress."

Authors

Paulo Costa, Ph.D., CFP®

Marsella Martino

Malena de la Fuente, Ph.D.

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