



The Association Between Income, Relative Income, Financial Trajectory, and Financial Satisfaction



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Introduction

- Financial satisfaction is a component of overall well-being and is linked to life satisfaction and mental health.
- Past research reports that higher income is associated with greater life and financial satisfaction (e.g., Hsieh, 2003; FitzRoy & Nolan, 2022).
- Relative income, which is how individuals perceive their income compared to others, is more strongly related to satisfaction than absolute income (Boyce et al., 2010; Clark et al., 2008).
- Perceived financial trajectory, defined as whether individuals believe their financial situation is improving, worsening, or staying the same, may also influence satisfaction, but has been less frequently studied.
- Education and employment status are included as control variables, as they may shape both objective income and individuals' perceptions of their financial position.

Methods

Sample

- Data source: 2024 General Social Survey (GSS), a nationally representative survey of U.S. adults (N = 3,309). The analytic sample (N = 2,885) includes respondents with complete data.

Measures

- The variables used were: Financial Satisfaction, Objective Household Income, Perceived Relative Income, Education, and Employment Status
- Financial satisfaction is made up of three groups: financially satisfied, more or less satisfied, or not satisfied at all. Results were dichotomized to satisfied (pretty well or more or less satisfied) versus not satisfied. Objective household income: 16 categories collapsed to low, middle, and high. Perceived relative income: five categories: far below average to far above average. Education: the highest year of schooling completed. Employment Status: full-time, part-time, unemployed, retired, in school, not in labor force.



Research Questions

- Are objective income, perceived relative income, and perceived financial trajectory associated with financial satisfaction?
- Do these associations persist after controlling for education and employment status?

Results

Univariate

- About 68.4% of respondents reported being financially satisfied.
- Most respondents were in the high-income group (70.4%), followed by the middle-income group (21.4%) and the low-income group (8.2%).
- Most respondents reported being around average (39.1%) or below average (25.4%), while fewer reported being above average (23.1%), far below average (8.8%), or far above average (3.6%).

Bivariate

- When examining the association between income group (categorical variable) and financial satisfaction (response variable), a chi-square test revealed a statistically significant relationship ($\chi^2 = 109.09, p < 0.001$).
- The small p-value indicates that the null hypothesis of no relationship can be rejected, suggesting that financial satisfaction differs across income groups.
- In contrast, relative income shows a clear pattern, as individuals who perceive themselves as above average report substantially higher financial satisfaction than those who perceive themselves as below average
- Financial trajectory also shows a clear relationship, as individuals who report worsening financial situations have lower satisfaction than those reporting improvement.

Multivariate

- A logistic regression model was used to examine the relationship between financial satisfaction and perceived relative income, financial trajectory, and control variables.
- Perceived relative income was a statistically significant predictor of financial satisfaction, with individuals reporting above-average income having substantially higher odds of satisfaction (OR ≈ 11.17) compared to those reporting far below average.
- Financial trajectory was also statistically significant. Respondents who reported their financial situation was getting worse had substantially lower odds of satisfaction (OR ≈ 0.14) compared to those reporting improvement.

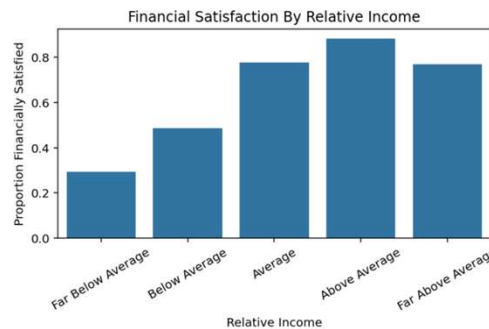


Figure 1: Financial Satisfaction by Relative Income among U.S. Adults

Multivariate (cont.)

- In contrast, objective income was not statistically significant after controlling for relative income and financial trajectory.

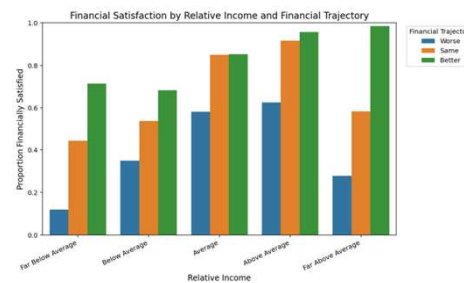


Figure 2: Logistic Regression Results Predicting Financial Satisfaction among U.S. Adults

- Education and most employment categories were not significant predictors.
- The positive relationship between relative income and financial satisfaction remains consistent across financial trajectory groups, indicating that perceived relative income is a robust predictor of satisfaction (Figure 2).

Discussion

- The results suggest that perceptions of financial position are more important than objective income in determining financial satisfaction. While income is significant in bivariate analysis, it becomes insignificant once relative income and financial trajectory are included.
- This finding highlights that individuals evaluate their financial well-being not only based on how much they earn, but on how they believe their situation compares to others and whether they feel their situation is improving or declining.
- These results have important real-world implications. Policies or interventions aimed at improving financial well-being may be more effective if they address financial stability, expectations, and perceived progress, rather than focusing solely on increasing income.
- For example, improving access to stable employment, reducing income volatility, and increasing financial transparency may help individuals feel more secure and satisfied with their financial situation.
- More broadly, the findings suggest that financial satisfaction is shaped by subjective experiences and expectations, not just material resources, emphasizing the importance of incorporating perception-based measures in economic research.

References

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