

## Article 18: Human Development and Poor Money Management

**Poor money management** creates financial stress, impacting **human development** across several areas. More specifically, it can constrain **psychosocial development** (Fan & Ryu, 2023; Kim & Chatterjee, 2013) due to its negative repercussions for mental and emotional health and negatively affect **physical development** as a result (O'Neill & Xiao, 2016; Schickedanz et al., 2016). This stress can also impair **cognitive development** (Mani et al., 2013; Weissberger et al., 2025) and productivity, thereby hindering education and career opportunities throughout the lifespan.

### Poor Money Management and Psychosocial Development

Poor money management leads to lasting financial stress that negatively affects psychosocial development by increasing feelings of anxiety, shame, and despair. It can also hinder social ties through financial conflict and mistrust, resulting in social isolation or exclusion (Fan & Ryu, 2023; Kim & Chatterjee, 2013).

For example, a study examined how financial lessons learned in childhood influence young adults' financial behavior later in life. Using data from a national U.S. sample of 2,098 participants aged 18–30, the researchers analyzed survey responses on parental financial teaching, childhood experiences with money, and adult money management habits. The data were collected through self-report questionnaires that measured financial behaviors, such as saving, budgeting, and asset ownership, as well as attitudes toward money. Findings showed that young adults who received consistent financial guidance and monitoring from parents were more likely to practice responsible money management and maintain positive financial attitudes. In contrast, lack of parental financial socialization was associated with poorer money management and lower financial confidence, which can create stress and worry around finances. These patterns suggest that poor money management may indirectly impact psychosocial development by increasing anxiety, reducing self-efficacy, and making it harder to navigate personal responsibilities. The study concluded that early financial socialization fosters economic competence and confidence, while its absence may contribute to ongoing financial challenges and emotional strain throughout young adulthood (Kim & Chatterjee, 2013).

Another study examined how financial debt affects the subjective well-being of young adults in the United States. Researchers used data from the 2017 Transition into Adulthood Supplement (TAS) of the Panel Study of Income Dynamics, which provides a national long-term sample of indicators. Participants aged 18–28 completed surveys reporting their financial debts, money management practices, and overall life satisfaction. Particularly, the data were collected through structured questionnaires measuring financial behavior, debt levels, and indicators of emotional and psychological well-being. Findings showed that young adults with higher levels of debt and poorer financial management reported lower life satisfaction and higher stress. Poor money management was associated with financial strain, which in turn negatively impacted mood, sense of control, and overall well-being. The study concluded that financial debt can act as a chronic stressor, influencing emotional and psychosocial outcomes over time. These results suggest that poor money management may undermine psychosocial development by increasing anxiety, reducing self-confidence, and straining personal relationships. Young adults who managed finances responsibly experienced better emotional stability and higher life satisfaction. Overall, researchers argued that financial education and guidance can foster both financial competence and psychosocial resilience (Fan & Ryu, 2023).

## **Poor Money Management and Physical Development**

Poor money management directly harms physical development by inducing chronic financial stress, which triggers damaging physiological responses in the body. The inability to manage money well also limits access to resources essential for healthy physical development, such as nutritious food, safe housing, and quality healthcare (O'Neill & Xiao, 2016; Schickedanz et al., 2016).

Following that lead, a study explored how an individual's tendency to plan ahead financially relates to both financial stability and overall health. The researchers used data from national surveys and behavioral research conducted in the United States to examine patterns between financial planning habits and health outcomes. Findings showed that individuals who plan regularly tend to have stronger financial security, make healthier lifestyle choices, and experience less stress. A proactive approach to managing money—such as budgeting, saving, and setting long-term goals—was consistently associated with better self-reported physical health and overall well-being. Conversely, poor money management was linked to chronic stress and reduced capacity to maintain healthy habits, which can negatively affect physical development over time. The researchers concluded that financial planning is not only a tool for building wealth but also a key contributor to sustaining physical health. In essence, lack of financial planning can trigger a cycle of financial strain and physiological stress that undermines individuals' overall physical development and quality of life (O'Neill & Xiao, 2016).

Another study explored how inadequate household savings (often the result of poor money management) is associated with increased health risks in children. The authors used data from a national sample of 2,907 children and families registered in the Panel Study of Income Dynamics between 1997 and 2007. Furthermore, the data were collected through interviews and surveys measuring families' savings, income, and children's health indicators (such as obesity, chronic illnesses, and overall health status). Findings showed that children from households with less than three months' worth of savings faced about a 25% higher risk of poorer health, a 70% higher likelihood of obesity, and a 25% higher chance of chronic illness compared to peers in better-resourced households. Children from households with insufficient savings were also at higher risk for poorer health outcomes, including obesity and chronic illness, highlighting the impact of limited financial resources on physical development. Lastly, the study found that each additional year spent in asset poverty (limited savings) further increased health risks. The researchers concluded that savings matter more than income alone in predicting child health. Hence, these results support the notion that poor money management and insufficient savings may impair physical development by limiting access to health resources, nutritious food, and preventive care (Schickedanz et al., 2016).

## **Poor Money Management and Cognitive Development**

Cognitive ability often precedes financial literacy. However, poor money management also creates persistent financial stress, which can significantly impair cognitive development. This stress reduces mental capacity, leading to a "scarcity mindset" that narrows focus and diminishes mental resources needed for planning, problem-solving, and sound decision-making across different life stages. Hence, the relationship is generally deemed multilayered, complex, and directional in several ways (Mani et al., 2013; Weissberger et al., 2025).

For instance, a study examined how financial concerns (including those associated with poor management) affect cognitive performance. Thus, researchers conducted experiments in India and the United States to further assess this phenomenon. In the U.S. portion, data were collected through laboratory experiments where participants were randomly assigned to think about either a financially challenging scenario or a neutral one. Cognitive performance was then assessed using tasks measuring fluid intelligence and cognitive control. Findings revealed that participants induced to think about financial difficulties performed significantly worse on these tasks compared to those who thought about neutral scenarios. This decline in performance was particularly pronounced among individuals with lower income levels and financial literacy. The researchers concluded that financial concerns consume mental resources, leaving fewer available for other tasks. These results suggest that poor money management—by increasing financial stress—can reduce mental capacity, impairing decision-making and problem-solving abilities. Such impairments may hinder effective financial planning, potentially creating a cycle of financial instability. The study highlights the importance of practicing good money management to preserve cognitive functioning and support sound financial decision-making (Mani et al., 2013).

On the other hand, a study explored how cognitive abilities relate to financial literacy among older adults in the United States. Sixty-six participants from California completed assessments measuring financial knowledge and cognitive functions, including vocabulary and semantic memory. The researchers assessed the relationships between these cognitive measures and financial literacy scores while controlling for age, sex, and education. Findings indicated that stronger performance on vocabulary and semantic memory tasks was associated with higher financial literacy. This suggests that older adults with weaker cognitive skills may be at greater risk of poor money management. The researchers concluded that cognitive functions, particularly vocabulary knowledge, play a crucial role in financial literacy among older adults. Consequently, deficits in these cognitive abilities could impair financial decision-making and lead to ongoing financial difficulties. The study highlights the importance of maintaining cognitive health to support effective money management. By strengthening both cognitive skills and financial literacy, older adults may better navigate financial challenges and reduce the risks associated with poor money management (Weissberger et al., 2025).

## References

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