



Institute of consumer money management

FOR IMMEDIATE RELEASE

The Institute of Consumer Money Management (ICMM), a nonprofit public charity organization based in North Carolina funded a study to explore the Link between Physical and Mental Health and Financial Well-Being.

A new literature review titled "Literature Review on the Effect of Physical and Mental Health on Financial Well-Being" has been published by a team of economists at Montana State University, providing a comprehensive summary of the documented effects of health on finances in the United States. The review draws on a wide range of disciplines, including economics, public health, law, medicine, psychology, public policy, and sociology. The aim of this review is to shed light on the complex interplay between physical and mental health and financial well-being.

The review finds that declining physical health, new health conditions, and unexpected health shocks have prominent negative impacts on household finances. The associated unanticipated out-of-pocket health costs can deplete household savings and force households to forego necessary consumption. Additionally, reduced earnings due to a health-induced exit from the workforce can further harm household balance sheets. The review also highlights the detrimental effects of mental health conditions on financial health, showing that mental illness reduces both the capacity to work and labor earnings by more than severe physical ailments.

The review documents the many financial hardships that follow a decline or shock to one's physical health in the U.S. context. Such hardships include higher bankruptcy rates, worse credit outcomes, lower subjective financial well-being, and higher rates of home foreclosure. The findings suggest that the primary two mechanisms through which a physical health shock harms finances are out-of-pocket costs and reduced earnings due to a health-induced exit from the workforce.

The review also emphasizes the need for policy interventions that focus on improving mental health at early ages, providing predictable and lower-cost medical care, and supporting households that experience gaps in labor market earnings due to unforeseen illness. The findings suggest that an improvement in mental health can improve workplace outcomes such as labor market participation and sustained employment. Determining how improvements in mental health affect other financial outcomes is an important area of future research.

Urban, one of the coauthors of the study wrote: "In synthesizing 60 papers across a wide array of literature, one common thread holds: falling ill in the U.S. harms household finances and particularly for the most vulnerable households. Those with fewer assets, the uninsured, and those who ended their education with a high school diploma have larger immediate financial consequences from unanticipated health shocks, though higher income households sometimes are harmed more after being out of the workforce." She goes on to say: "Outside of large federal changes to healthcare and sick leave, cost transparency and financial-healthcare partnerships could potentially blunt the effects of health shocks on finances".

Swensen, a coauthor on the study said of mental health interventions, "Our review of the emerging literature linking mental health to financial well-being found a growing number of studies that support the notion that mental health may be more impactful than physical health with respect to household finances." He continued, "Our review also highlights evidence that specific interventions, such as targeted treatment provision have the potential to mitigate some of the long-lasting negative effects on financial well-being. While more research is needed in this area, existing evidence points to particularly promising benefits of early interventions."

The literature review is available for free online at <https://docs.iza.org/pp198.pdf> and is expected to be of interest to policymakers, researchers, and anyone interested in the complex relationship between physical and mental health and finances.

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