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Editorial

Household Financial Decision-Making: Miscalibration, Mortality, Emotion, and Culture

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This issue brings together four articles that, while varied in topic and theoretical lens, converge on a common concern: household financial decisions are often shaped by forces that standard economic models and financial practice treat only imperfectly. Drawing on Metacognition Theory, the Four-Quadrant Model, Terror Management Theory, and the Financial Resilience Framework, these studies show that financial outcomes reflect not only what individuals know but also how accurately they assess that knowledge, how they feel at the point of decision, and how social and cultural context shapes behavior. Collectively, the studies challenge the assumption that household financial decisions can be explained largely by stable, deliberate choices and straightforward knowledge effects. What follows is a brief discussion of the question each article addresses, its principal findings, and the broader relevance of those findings.

In the first article, Quadria and Lacombe (2026) draw on metacognition theory and the Dunning-Kruger framework to examine perception bias in financial knowledge, measured as the systematic gap between how financially knowledgeable individuals believe themselves to be and how knowledgeable they actually are. In a two-step ordered probit regression, the authors measure perception bias as the surrogate residuals from modeling subjective financial knowledge as a function of objective knowledge. Regressing perception bias on various variables from the 2018 National Financial Capability Study (NFCS), the results show financial miscalibration is not corrected by financial education. This has potential consequences for financial educators and practitioners. For instance, if financial advice clients systematically misjudge their own financial competence, advisors cannot rely on self-reported understanding as a proxy for genuine engagement with advice.

Colbeck et al. (2026) apply the four-quadrant model (FQM) to the investment decision-making of self-managed superannuation fund (SMSF) trustees in Australia.[1] The FQM extends dual-process theory by disaggregating the two standard processing types, Types I and II, along a second dimension distinguishing cognitive from affective responses, yielding four quadrants: I. controlled-cognitive (deliberate thinking); II. controlled-affective (deliberate feeling); III. automatic-cognitive (fast thinking); and IV. automatic-affective (fast feeling). Cluster analysis of the survey data identifies distinct decision-making styles, revealing that affective processing is related to SMSF trustees' investment decision-making. For a sector in which 1.2 million Australians with limited investment understanding self-manage an estimated A$1.1 trillion in retirement savings (Australian Taxation Office, 2026), these findings raise broader questions about decision support and trustee capability in an economically significant segment of the retirement system.

[1] Self-managed superannuation funds are a retirement savings vehicle autonomously controlled by the members themselves.

The next article shows that inheritances are spent faster than other windfalls of comparable size, even after controlling for their substantially larger average value. Anchored in Terror Management Theory (TMT), Thompson and James (2026) argue that inheritances constitute a mortality cue, altering how recipients process decisions in relation to financial windfalls. Using five biennial waves of the Health and Retirement Study between 2010 and 2018, they show that each inherited dollar raises next-wave net worth by only $0.61, implying that roughly 40 percent of bequest value evaporates within approximately twelve months of receipt. After adjusting for inheritances being nearly three times larger on average, recipients of inheritances are 24 percent more likely to spend the entire windfall within approximately twelve months. Dissipation is most pronounced among renters and those without a college education, suggesting that liquidity constraints and lower financial literacy compound the psychological dynamics at play. These findings suggest that greater attention to phased transfer structures, such as staggered account payouts or testamentary spendthrift trusts, may be warranted.

In the final article in this issue, Liu et al. (2026) examine the associations between financial self-efficacy, financial knowledge, financial anxiety, and financial satisfaction in the NFCS Asian American and Pacific Islander Oversample. They find that objective financial knowledge is paradoxically associated with lower financial satisfaction, while subjective financial knowledge and financial self-efficacy are the variables most consistently linked to higher financial satisfaction. Equally notable is the robustness finding that Asian Americans report significantly higher financial anxiety than Black and Hispanic respondents, even after controlling for income, age, education, employment, and financial resilience indicators. For financial therapists and planners, these findings highlight that client anxiety and satisfaction may reflect psychological and cultural influences that are not captured by conventional financial metrics, potentially shaping how individuals interpret and respond to financial advice. This perspective also complements other research calling for greater attention to the cultural competence of financial service providers (Craft et al., 2025).

Taken together, the studies in this issue point to three priorities for the next stage of household finance and personal finance research.

I. *Toward a unified analytical framework for household financial decision-making*.

A first implication emerging from the studies in this issue concerns the potential for stronger integration between psychological insights and economic models of household financial decision-making. The articles in this issue primarily adopt psychological perspectives to explain financial behavior, highlighting mechanisms such as knowledge miscalibration, mortality cues, emotional investment decisions, and financial anxiety. These insights provide valuable explanations for observed behavior, yet they are often examined in isolation from formal economic decision frameworks. Economic models of household finance provide a natural structure within which such mechanisms could be analyzed more systematically. For instance, Shefrin and Thaler (1988) incorporate self-control problems and mental accounting into a behavioral life cycle model, demonstrating how conflicts between short-term impulses and long-term planning can shape household saving and consumption behavior. Caplin and Leahy (2001) show how anticipatory feelings such as anxiety or dread can enter the utility function and influence decisions under uncertainty. Lusardi, Michaud, and Mitchell (2017) add a

further dimension by modeling financial knowledge as an endogenous investment decision, demonstrating how differences in financial knowledge can shape wealth accumulation over the life cycle. These theoretical perspectives suggest that household financial behavior may be conceptualized as an intertemporal choice under uncertainty in which cognitive constraints, emotional responses, and knowledge jointly shape financial outcomes. Future research would benefit from theoretical models that more explicitly integrate these mechanisms, thereby advancing a more unified analytical framework for household financial decision-making.

II. *Toward causal evidence on financial behavior.*

While the studies in this issue provide rich panel and cross-sectional evidence that is valuable for identifying empirical associations, such approaches often make it difficult to rule out counterfactual forces beyond the dataset. In the domain of financial literacy, for instance, earlier meta-analytic work cast doubt on the downstream behavioral effects of financial education (Fernandes et al. 2014), whereas more recent meta-analytic evidence from randomized studies suggests that financial education can improve both knowledge and behavior on average, albeit with effects that vary across contexts and designs (Kaiser et al. 2022). The implication is not that financial education universally "works" or "does not work", but rather that the field would benefit from experimental research that can isolate the effects of knowledge- or confidence-building, emotional regulation, decision aids, and client engagement strategies, especially where miscalibration, anxiety, or automatic processing may prevent people from converting knowledge into action.

III. *Toward evidence-based financial advisory service practice and policy.*

Financial services need to move more deliberately toward evidence-based practice. The articles in this issue speak directly to practical problems faced by advisors, educators, and policymakers: clients may misjudge what they know, emotionally salient events may alter decision processes, and cultural context may shape financial anxiety and satisfaction in ways that are not captured by standard technical advice models. These are not marginal concerns, because they affect whether advice is understood, trusted, acted on, and sustained over time. A prime example of how research can inform practice is the financial risk tolerance scale developed by Grable and Lytton (1999), which continues to provide advisors with a systematic diagnostic for assessing clients' willingness to take financial risk (Kuzniak et al., 2015). Moving toward evidence-based financial services will require not only continued research but also closer collaboration between researchers, industry practitioners, and professional bodies to test behavioral insights in real advisory contexts and develop scalable solutions. Journals such as *Financial Services Review* can contribute to this effort by providing a forum where rigorous research and practice-oriented insight meet.

Ultimately, progress in household finance will depend on a closer integration between theory, empirical testing, and practice. Analytical models help clarify how financial decision-making should work under different conditions, experimental and field research reveal how it

actually unfolds in practice, and collaboration with industry provides the opportunity to implement and evaluate solutions in real-world settings. Bringing these elements together offers a promising path toward financial services that are both technically sound and behaviorally realistic.

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