24 Financial Parenting: Promoting Financial Self-Reliance of Young Consumers

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Raising independent and self-reliant children is an important parenting goal in the USA. Self-reliance is typically defined by children's ability to master developmentally appropriate and increasingly complex social tasks. Financial self-reliance encompasses both financial independence (i.e., living apart from family and taking personal responsibility for finances; Whittington & Peters, 1996) and financial capability (i.e., financial knowledge, skills and opportunity; Johnson & Sherraden, 2007) as well as the ability to make prudent financial decisions based on available options and resources. Financial decision-making is a life-long process. In the face of changing personal and external circumstances, consumers must continually adapt their financial knowledge, skills, and behaviors to make age-appropriate financial decisions. An inherent assumption of good parenting is providing age-appropriate structure and support to promote the development of the knowledge and skills children need to live independent lives. From this perspective, financial parenting can be construed as life-long parenting practices that promote children's ability to understand the relevance of and the need for financial knowledge and skills to make sound, age-appropriate financial decisions.

Although financial self-reliance is an important marker of adult status (Arnett, 2004), the process of acquiring the financial knowledge and skills to become financially self-reliant begins in early childhood. Parents provide a context in which children learn what money is and how it is used. Whether explicit or implicit, financial parenting takes place in the day-to-day lives of families, through frequent interactions, conversations, and lessons. Consequently, the financial knowledge and skills acquired while growing up at home form the foundation for the financial attitudes and behaviors carried into adulthood (Ashby, Schoon, & Webley, 2011; Bucciol & Veronesi, 2014; Varcoe, Martin, Devitto, & Go, 2005). This chapter has two objectives: first to describe the ways that financial parenting promotes the acquisition of financial knowledge and skills; second to propose how financial parenting promotes or constrains financial self-reliance. The chapter begins with a description of the changing social and economic landscape that demands a higher level of financial knowledge and skills for today's young consumers, and consequently, the need for financial parenting, that is, the context by which parents continue to influence the financial knowledge and skills beyond childhood. The chapter concludes with

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J.J. Xiao (ed.), *Handbook of Consumer Finance Research*, DOI 10.1007/978-3-319-28887-1_24

recommendations for those who work with or on behalf of young consumers, including practitioners, educators, and parents.

The Lengthening Journey to Adulthood

In the USA and other industrialized nations, financial self-reliance is an important marker of adult status (Arnett, 2004); a growing number of young adult consumers are, however, finding it difficult to achieve that milestone. Nearly one-third of 18–34 year olds today rely on parents for continuing financial support (FINRA IEF, 2013), including living at home to make ends meet (U.S. Census Bureau, 2013). In the USA, several social and economic trends have contributed to this lengthening journey to adulthood, including a weak labor market, cuts in government-funded social programs (e.g., welfare, unemployment), reductions in employer-provided benefits (e.g., health insurance, retirement plans), and a rising need for and increased costs of post-secondary education (Pew Research Center, 2012; Settersten, 2012). The Great Recession has drawn attention to these economic and social conditions—and to a growing financial uncertainty among young adults (Settersten, 2012). Given this changing landscape, how do parents help children develop the financial knowledge and skills to manage limited financial resources and make responsible financial decisions?

Compared to previous generations, today's consumers must assume greater personal responsibility for long-term financial well-being. Many adults in America, particularly young adults, do not understand even basic financial concepts, and consequently lack the financial knowledge and skills to make good financial decisions on their own behalf (FINRA IEF, 2009, 2013). With more young adults relying upon parents for extended financial support (FINRA IEF, 2013), parents continue to influence the financial decision-making of their children well into the third decade of life (Settersten, 2012).

For the present chapter, financial parenting refers to three distinct contexts by which parents influence their children's financial knowledge and skills: (1) financial socialization (what parents say and do to convey financial information), (2) parenting style (the way parents convey that information), and (3) parental social class (the range of financial opportunities and experiences parents provide).

Financial Socialization

The role of parents in the formation of their children's financial knowledge and skills is most often studied as a financial socialization process. Parents and family act as primary socialization agents by which children acquire and develop values, attitudes, standards, norms, knowledge, and behaviors that contribute to financial viability and individual well-being (Danes, 1994, p. 128). As primary socialization agents, parents are an important mediator of the external environment and the messages funneled to family members (Moore-Shay & Berchmans, 1996). *Role-modeling* is perhaps the most prevalent method of parental financial socialization. When parents buy groceries, pay bills, put money aside for emergencies, they model the financial norms, attitudes, and behaviors that form the foundation for their children's financial values. When parents save, children know that saving is a good thing (Bucciol & Veronesi, 2014), even at the age of six (Sonuga-Barke & Webley, 1993). When parents practice responsible financial behaviors, their children are more knowledgeable about money use and responsible financial behavior (Marshall & Magruder, 1960; Shim, Barber, Card, Xiao, & Serido, 2010). This implicit transmission of norms, attitudes, and behaviors extends beyond childhood. For instance, young adults who see their parents as positive financial role models report more favorable attitudes toward performing responsible financial behaviors, feel more in control of their financial behaviors and practice more responsible behavior

(Clarke, Heaton, Isrelsen, & Eggett, 2005; Jorgensen & Savla, 2010; Shim et al., 2010).

The effect of parental role-modeling, however, may not always be positive. A qualitative study found that college students whose parents' modeled responsible financial behaviors at home also practiced those same responsible behaviors while at school; whereas students whose parents practiced poor financial behaviors, adopted those same poor behaviors (Solheim, Zuiker, & Levchenko, 2011). Role-modeling is often implicit, and as such, may be misconstrued or misinterpreted. For example, analyses of a survey study of college students from four different states found that when parents argued about financial problems, rather than discuss financial matters, students viewed money as problematic, rather than as a resource to be managed (Allen, Edwards, Hayhoe, & Leach, 2007).

Parental teaching is also an important socializing strategy, one that may more explicitly transfer financial knowledge and skills between parents and children (Violato, Petrou, Gray, & Redshaw, 2011). By observing parents' behaviors, young children may know that saving is a good thing (Sonuga-Barke & Webley, 1993), but older children are capable of applying more sophisticated strategies when taught how to do so (Otto, Schots, Westerman, & Webley, 2006). Koonce, Mimura, Mauldin, Rupured, and Jordan (2008) found a strong relation between parenting information and teens' financial behaviors, specifically, teens who received more financial information from their parents were more likely to set financial goals and save money. Additionally, in a retrospective study of a nationally representative Dutch sample (Webley & Nyhus, 2006), adults who reported greater parental socialization during childhood regarding money and finance were more likely to save, versus spend, their excess income.

The transfer of knowledge about how to do things on their own may bolster children's confidence in their ability to make good choices. For instance, in a study using a convenience sample of college students, those whose parents taught them basic money management skills (e.g., setting goals, budgeting, paying bills) at home felt more prepared to handle their own finances in college (Clark et al., 2005). In a separate study, college students whose parents invested more time discussing financial matters and teaching them how to perform specific financial tasks (e.g., how to use a credit card, how to be a smart shopper, how to finance college) while growing up at home, were more likely to act on the positive financial behaviors modeled by their parents while at school (Shim et al., 2010). Similarly, college students whose parents taught them how to manage money, reported lower levels of credit card debt (Norvilitis & MacLean, 2010). Longitudinally, lower credit card debt and higher credit scores among low- and middle-income adults have been linked to explicit parental instruction of money management skills in childhood and higher educational attainment (Grinstein-Weiss, Spader, Yeo, Taylor, & Books Freeze, 2011). In another survey study among college students, explicit early socialization (e.g., my parents taught me about credit cards, budgeting, debt, and saving), compared to implicit socialization (e.g., we did not talk much about finances; I learned through their example), was associated with higher levels of financial knowledge (Jorgensen & Savla, 2010).

Taken as a whole, these studies suggest that parental role-modeling and explicit teaching are powerful socializing processes that promote an intergenerational transfer of financial knowledge, skills, and values with different effects. When parents model financial practices, even very young children learn what their parents expect of them, regarding financial values and financial behaviors. Because this transmission is implicit and subject to misinterpretation, children may not understand why these values and behaviors are important, and consequently, may fail to practice these behaviors once they are on their own. When parents explicitly teach children about the uses of money, however, they become more knowledgeable about the impact of their financial choices, feel more competent about managing their finances, and internalize those behaviors (Serido, Shim, & Tang, 2013).

Parenting Style

The way parents "parent" is an often studied and sometimes hotly debated topic, but there is some agreement that warmth, engagement, and positive (non-conflictual) communications, promote better academic, health, and well-being outcomes (Nash, McQueen, & Bray, 2005) and diminish risk-taking behaviors (Holahan, Valentiner, & Moos, 1994)—particularly during adolescence. When it comes to financial parenting, the quality of family relationships provides the motivation for youth to perform expected financial behaviors on their own. A British longitudinal study of the 1970 birth cohort found that authoritative parenting (e.g., warm and supportive parenting in the context of age-appropriate rule-setting) was linked to more saving both concurrently (i.e., in adolescence) and prospectively (age 34) (Ashby et al., 2011). In one survey study, adolescents who reported more parental warmth, were more likely to save for their education, especially if parents spoke to them about the uses of money, for example, the importance of donating to charity (financial values) and saving for school (goal-striving and planning) (Kim, LaTaillade, & Kim, 2011).

Additionally, during the transition to college, the quality of the parent–adult child relationship may be associated with more proactive financial behaviors. In one study, college students whose parents talked to them about finances while growing up and expected them to manage their finances responsibly were more likely to maintain a budget and save for the future (Serido, Shim, Mishra, & Tang, 2010). Similarly, in a retrospective survey study, young adults who reported being good money managers often noted that their parents were actively involved in monitoring their spending behaviors as children (Kim & Chatterjee, 2013). The positive influence of these interactions may be long lasting as well: in a larger survey study among low- and moderate-income households, those who reported talking to their parents about money as a child practiced more responsible behaviors as adults (Cho, Gutter, Kim, & Mauldin, 2012).

Although parent–child communications about money can have a positive effect, parents differ in what financial information they feel is appropriate to share with their children—and at what age to share that information (Danes, 1994). There is some consensus that it is important to teach children of all ages about the importance of financial values, for example, saving and comparison-shopping. But when it comes to disclosing specific information about family finances, parents may limit the information that they share, particularly with younger children, because they do not want children to worry about the family's finances (Romo, 2011). Whether or not parents share specific information, children may be adversely affected by family finances (Conger & Conger, 2008). How parents talk about financial matters, even between themselves, is itself a financial parenting style that may influence children's financial values. For example, a survey study of college students found that when parents argued about money, students were more likely to imagine their own financial discussions with their parents as unpleasant (Allen et al., 2007). In this sense, financial communications between parents contribute to a child's perception of their parents' financial parenting styles: a dyadic survey of 63 college students and a parent found that students who viewed their parents as competent financial managers experienced a stronger sense of security and stability whereas students who perceived their parents as less competent financial managers were more concerned about money (Moore-Shay & Berchmans, 1996).

As children mature, they seek more behavioral independence yet continue to rely on parents for tangible and emotional support (Settersten, 2012). When children initiate discussions about personally meaningful financial topics, for example, wanting a new iPhone, parents have an opportunity to shift their parenting style, to a more peer-like relationship. In this sense, parent–child discussions can be viewed as "teachable moments," opportunities for parents to further instruct their children about responsible financial management and to encourage deeper thinking about the role of finances. This would seem to be a particularly effective approach in preparing adolescents to handle unexpected or increased expenses, such as the cost of a monthly phone plan for the new iPhone, to introduce new financial topics (e.g., insurance), or initiate hypothetical conversations about the financial ups and downs that happen throughout life. Bi-directional parent–child discussions about finances and financial management may offer a training ground to encourage problem solving and critical thinking about decision-making in a changing and unpredictable economy.

Parental Social Class and the Process of Self-Reliance

Parents instill financial values and help children develop financial knowledge and skills. Yet, to become financially self-reliant, children also need opportunities to put their financial knowledge and skills into practice, to make financial choices, choosing one option from among the options available to them, and reflecting on their choices (Serido et al., 2013). Inherent in our definition of financial self-reliance is the assumption that good financial decisions emerge from the intersection of financial knowledge and skills and the thoughtful use of available resources. Because social class accords some groups more social value than others (Cortina, Curtin, & Stewart, 2012), one could surmise that parental social class may promote or constrain acquisition of financial knowledge or limit access to financial services (Sherraden, 2013). In other words, parental social class provides an important context for the types of opportunities and experiences children have when thinking about and making choices about the use of their financial resources. These opportunities and experiences strengthen children's self-beliefs about their ability to independently perform those behaviors, and position them to take the step from financial self-beliefs to financial self-reliance.

Parental social class emerges from sociodemographic factors or combinations of factors, such as gender, race/ethnicity, family income, and parental education. There is substantial empirical support that financial knowledge and skills vary by sociodemographic factors. Among adult respondents in the 2001 Surveys of Consumers, financial literacy was higher for White, compared to Black or Latino participants; higher for men, compared to women, and higher for those with more years of education (Hogarth, Beverly, & Hilgert, 2003). A study using the 1983–2001 Survey of Consumer Finances found that while 9 % of the households who participated in that survey were "unbanked," the percentage was much higher for low-income, younger, non-White, and Latino households (Aizcorbe, Kennickell, & Moore, 2003). Among low-income participants in smaller samples, sociodemographic factors (i.e., years of education, English proficiency, and asset ownership) continued to differentiate between higher and lower levels of financial knowledge (Zhan, Anderson, & Scott, 2006). Given the connection between English proficiency and financial knowledge, it is not surprising that financial literacy among Latinos is typically lower than other racial/ethnic minority groups. Examining a nationally representative sample of young adults, Lusardi, Mitchell, and Curto (2010) found that while the overall level of financial literacy was low, it was significantly lower for some participant groups compared to others: specifically, lower for women compared to men; lower for Black and Hispanic compared to White; and lower for young adults whose mothers had less education. The researchers also found a strong association between youths' sociodemographic characteristics and level of financial sophistication in the family (e.g., owned stock and other investments). In summary, these studies suggest that the observed sociodemographic differences in financial knowledge and skills may be attributed to exposure to different opportunities and experiences.

How might financial parenting promote financial self-reliance? We envision financial self-reliance as a dynamic process of interaction between individuals across settings and in different contexts. As children learn about financial topics, they develop a sense of empowerment over their finances. As children practice new skills, they develop self-beliefs about independently performing those skills, which serve as the catalyst for becoming self-reliant adults. Young adults gain a deeper understanding of increasing financial responsibilities when they engage in routine financial transactions (e.g., pay for the bus/subway to work/school; buy lunch; pay cell phone bill) (Jorgensen & Savla, 2010). Self-beliefs regarding efficacy, ability to manage money, and problem solving may differentiate between young adults who achieve self-reliance and those who have not yet reached that milestone (Xiao, Chatterjee, & Kim, 2014). Locus of control is another self-belief that has been shown to differentiate between young adults who practice self-reliant financial behaviors and those who do not (Britt, Cumbie, & Bell, 2013). Even studies among young children demonstrate that those with experience handling money (e.g., allowance) show a greater understanding about pricing knowledge, cash, and credit transactions compared to children who lack that experience (Abramovitch, Freedman, & Pliner, 1991).

Does parental social class promote or constrain self-reliance? If we accept that financial self-reliance emerges through opportunities to apply knowledge and skills then it makes sense to speculate on the potential role that parental social class might play. Children growing up in low- and middle-income households (LMI) have different opportunities compared to children raised in higher income households—and these differences may hasten or delay financial self-reliance. For instance, young adults from LMI families may have to make independent financial decisions sooner and have fewer options available to them, for example, taking out a high interest payday loan to pay for car repairs. In contrast, their higher income counterparts may have fewer financial responsibilities or have access to more options, including relying on parents to cover unexpected car repairs or miscellaneous expenses.

There is some empirical evidence for understanding the association between parental social class and financial independence of young adult children. For instance, Whittington and Peters (1996) found that parental income was associated with greater dependence in late adolescence (ages 18–19) but greater independence afterwards. In contrast, Xiao et al. (2014) found that greater parental resources (i.e., parental income, stock holding, and financial assistance) were negatively associated with young adults' financial independence. In this study, a college degree was associated with higher reported levels of financial independence and personal income. This may suggest that parents with greater financial resources are able and willing to provide a financial security net that allows their young adult children time to invest in further education to secure future financial security. Empirical support for the indirect association between parental social class and financial independence is found in a study by Lee and Mortimer (2009). Using a longitudinal study spanning adolescence and young adulthood (ages 18–25), the researchers found that parental income was positively associated with financial self-efficacy in adolescence which, in turn, was positively associated with educational attainment in both adolescence and young adulthood.

A few studies have looked at the association between parental financial support and young adult well-being. One national study in the USA (Johnston, 2013) found that parents' financial support was associated with increased depressive symptoms and diminished self-esteem particularly for young adults who had left school or worked full time. In contrast, a national study in France found that young adults who had received large sums of money from parents over a 1-year period were much more likely to report very good health compared to participants who received little or no financial support from parents (Scodellaro, Khlat, & Jusot, 2012). As the transition to adulthood takes longer and more parents provide material assistance to young adult children (Wightman, Patrick, Schoeni, & Schulenberg, 2013), the role of parental social class on young adults' self-reliance warrants further research.

Summary

This chapter reviewed the ways that parents promote the development of their children's financial knowledge and skills. We focused on parenting contexts that provide opportunities and experience to prepare children to make good financial choices. From this review, it is clear that financial parenting provides the motivation for the next generation to understand and accept responsibility for long-term financial well-being. Financial self-reliance begins at home, with parents as gatekeepers of initial exposure to and understanding of the role and responsibilities that finances and other resources play in the family—and that process continues throughout the life course. In the household, children learn values, attitudes, roles, standards, and knowledge from their parents, who learned these same attributes from their parents; financial parenting is an intergenerational process. Our review of the literature also suggests that parents promote financial self-reliance by allowing their children to practice making financial decisions, and to let them learn from them. Whether it is a young child spending all their allowance on sweets now and not having enough for a wanted toy later, or an young adult paying a $35 overdraft fee, both experiences teach a valuable financial lesson that shape their future financial decisions. In summary, financial parenting is the ongoing and age-appropriate interaction between parents and their children to foster financial self-reliance.

Implications for Practice

For practitioners and educators who work with families, it is important to recognize that the foundation for financial well-being is established at home. Classroom education that includes instruction and practice relevant to the lived experiences that youth encounter outside the classroom may sow the seeds of change. Content knowledge alone cannot change financial practices, particularly for children who depend on their family to nurture and guide them. For this reason, programs and interventions may be more effective when they involve multiple family members and go beyond financial knowledge to financial how-to. Because financial decision-making is becoming increasingly more complex (Hacker, 2006), many parents may not feel they have adequate information themselves.

Helping parents understand that good decision-making skills are not confined to the financial domain may bolster parents' own financial self-efficacy and self-confidence. Family interventions that focus on strengthening self-beliefs, for instance self-control (Bernheim, Garrett, & Maki, 2001) and problem-solving ability (Xiao et al., 2014) may be more effective than content knowledge in promoting financial self-reliance. Finally, helping parents understand that the nature of the parent–child relationship changes from that of dependence to a more peer-like relationship as children mature (Shanahan, Mortimer, & Krüger, 2002) may improve communications about finances and benefit parent and child alike.

Implications for Research

Although parenting practices provide a foundation for children's financial well-being, further research is needed to understand the processes by which individuals use these practices to become financially self-reliant. To a large extent, the research on financial parenting comes from self-report survey data, obtained retrospectively from either the parent or the child. As a step forward in understanding financial parenting as a process, multi-informant studies are needed. These could include qualitative interviews and survey research with parents and children to gain insight on what parents believe they are teaching their children and what their children are actually learning. The use of online diary studies, particularly in the stress and coping literature, has been instrumental in capturing processes as they unfold in day-to-day life. This approach could be particularly useful for understanding parenting practices that contribute to persistent patterns of behavior (e.g., once a saver always a saver) and changing patterns (e.g., early saver but later spender) as well as external factors that disrupt those patterns.

A growing number of individuals and families across the USA are struggling financially (FINRA IEF, 2013). As Gudmunson and Danes (2011) point out, people make financial choices based on relevant information available to them in real-life situations. As such, much of the literature and the implications of positive financial parenting in promoting positive outcomes for youth from early childhood to young adulthood may reflect a majority bias. Thus, future research is needed to examine financial socializing norms and values across diverse samples, including racial/ethnic minority and immigrant families that reflect a collective culture perspective.

Concluding Remarks

Current economic realities such as global economic instability and a shift toward greater personal responsibility for financial security may delay or threaten young adults' ability to become self-reliant adults (Littrell, Brooks, Ivery, & Ohmer, 2010). Thus, promoting financial self-reliance among young consumers also rests on providing opportunities to parents, particularly parents with limited financial resources through direct access to financial education, financial programs, and financial services. This may be a fertile area for addressing known sociodemographic gaps in financial knowledge and behavior. One promising direction is the combination of access to financial services with financial education to improve adults' financial knowledge and skills (e.g., Anderson, Zhan, & Scott, 2004). Matched savings account programs (Individual Development Accounts, IDA) also may improve the savings and asset building behaviors for families with limited financial resources (e.g., Schreiner & Sherraden, 2007). Finally, there is a need for both government and private industry to explore alternative safe and affordable financial services products for financially fragile families.

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