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Parental Influence on the Financial Literacy of Their School-Aged Children: An Exploratory Study

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ABSTRACT

The purpose of this research is to assess the parental perception about their financial habits and their children's. This research was conducted through interviews, which were administered through email, on the phone, or in person, in October 2009.

Financial literacy, promoting proper knowledge and habits, is very important in sustaining a healthy economy and in achieving a good personal financial situation. Danes (1994) points out that parents play an essential role in transferring knowledge of the realistic and sensitive aspects of money. Mandell (2009) states that the use or misuse of financial knowledge can affect an entire national economy. Clearly, more financial education is necessary for young adults to better the economy. The family is the source for most of a child's financial knowledge. However, parents seem to pass only their own feelings about money on to their children. If more parents could factually educate their children about finance, children may be less likely to develop poor habits. If enough young adults entered the adult world with sound financial literacy, it could have a macroeconomic effect.

INTRODUCTION

Today's level of personal financial literacy in young adults has declined. More than ever, people now live so far outside of their means that they cannot efficiently manage their debts. The occurrence of bankruptcy has skyrocketed in the last twenty years. People so often purchase items on credit; perhaps they have forgotten the value of their money. Poor choices stem from a lack of knowledge, and finances are no exception. Since 1997, the Jump$tart Coalition for Personal Financial Literacy has studied the financial literacy of high school students. Mandell (2009) reported that the 2008 results of these surveys fell to the lowest ever. The average survey score of 2008 was 48.3%; and 57.3% in 1997-98. Researchers hoped that the initial failing grade in 1997-98 would rise over time, but the opposite took place. Mandell (2009) deduced that an overwhelming 75% of young adults do not have the knowledge to perform well financially. "Financial literacy clearly has ongoing macroeconomic ramifications," (Mandell, 2009, p. 6).

Some researchers focused a large portion of their study of this topic on college-aged students. Thus, few studies show the financial aptitude of younger children. More research on the young children and the early source of poor financial habits would prove beneficial.

College students surveyed in past research thought back to their family and home life and accounted for their financial education from their parents. However, this remains anecdotal and unquantifiable information. More concrete results would stem from studying young children and their parents to form a more valid and reliable description of reasons why some families do not adequately teach their children about finance.

Beverly & Burkhalter (2005) found that research establishes that young people's knowledge of finance is lacking and many do not use optimal financial skills. This statement generalizes current research on this topic. Nevertheless, it seems that researchers have not thoroughly written on this topic as there are only a limited number of articles available. Considering the research found, the common conclusion is that children and young adults desperately need more financial education so they can make more informed decisions as adults.

Researchers have conducted studies on the parental role of a child's financial education. The trend in research demonstrates that a child's most significant source of financial knowledge comes from their family. Danes (1994) points out that parents play an essential role in transferring knowledge of the realistic and sensitive aspects of money. The family, then, must realize this and act accordingly. Clarke, Heaton, Israelsen, & Eggett (2005) argued that a very small amount of research exists pertaining to the passing of information from parent to child about adult roles and responsibilities, particularly about finances. After reviewing past research, it is evident that more research is necessary to see how parents effectively communicate financial messages to their children.

Adolescents in particular experience difficulty in receiving proper financial guidance. Many parents do not feel that they can influence their teenage child's spending habits due to peer influence. Furthermore, many teenagers have a high spending rate when using cash, checks, or credit cards. Pinto, Parente, & Mansfield (2005) established that the age at which young adults receive credit cards is dropping. As children have access to more money and credit at a younger age, the need to ensure a quality financial education increases. Clarke, et al. (2005) found that if teens have not received proper financial education from their parents, they are likely to have unrealistic income aspirations and unwise financial habits.

Families provide the most deep-seated education. Clarke, et al. (2005) found that the poor financial habits of parents commonly present themselves in their children's lives. Children watch and model their parental figures. From birth until they leave home, children look to their parents for guidance and knowledge of the world. Clarke, et al. (2005) explained that parents have a duty to educate and guide their children into taking on mature responsibilities and tasks. They play the role of primary educator in a child's life. Parents themselves may not feel comfortable with their own financial situation so they do not want to talk about it with their children. Edwards, Allen, & Hayhoe's (2005) research found that young adults are more reserved about discussing their personal finances with parents who (a) have a fixation with money, (b) associate money with authority, and (c) make unwise budgetary and savings decisions. Parents must establish good lines of communication with their children about several aspects of the adult world, especially finance.

Young people must learn about financial responsibility before they develop lasting poor habits. Bowen & Jones (2006) emphasize that young adults who lack education in matters of personal finance will eventually have the control of our nation's financial culture. The general economy may improve by simply helping children learn about money at an early age. Clarke, et al. (2005) suggests that young adults feel more equipped to handle financial responsibilities if they acquired a good education on the subject at home. This shows that the best education starts at home. As research has indicated, families should place high priority on teaching children about finances and the associated future adult responsibilities.

Schools also play a part in a child's financial education, though a less significant part than parents. Pinto, Parente, & Mansfield (2005) have observed that after a child starts kindergarten, most of that child's time will be spent within the school. The school system provides an effective way to reach children and teach them about personal finance. Unfortunately, many states do not require that schools incorporate finance into their curriculum. Green (2009) clarifies that in the last five years, seventeen states have made personal finance mandatory in their educational programs. She adds that only in Missouri, Tennessee, and Utah, students have to take a course specifically covering personal finance. Two websites in particular have begun trying to promote financial education in schools: Jump$tart Coalition (http://www.jumpstart.org) and National Endowment for Financial Education's High School Financial Planning Program (http://hsfpp.nefe.org). These sites provide free and low cost educational tools for all ages to learn about personal finance. Though some schools across the country have begun incorporating financial education, it still does not have the impact that parents do. Furthermore, according to Mandell (2009), students who take a financial class in high school receive similar scores on the Jump$tart Coalition survey as students who do not. This proves that the financial courses in schools may not actually have a substantial effect.

Among all ages, harmful financial practices are on the rise in America. Edmiston (2006) identified that five times more people are filing for bankruptcy than in 1980. Likewise, comparing the FDIC Press Release (2010) and Reinsdorf's (2007) statistics, it is evident that personal savings rates are currently more than six percent lower than in the early 1980s. As stated by Mandell (2009), three quarters of America's young adults do not have an adequate amount of financial knowledge. His data exemplifies that financial illiteracy leads to more individuals making poor decisions in their money management. Mandell (2009) has also stated that the use or misuse of financial knowledge can affect an entire national economy.

The rate that individuals save their money lacks promise. In a February 2007 report by the Bureau of Economic Analysis, Reinsdorf (2007) shows the highest rate of personal savings occurred in the mid-1940s at over 25% of income. This report also shows that in 2005 and 2006 the savings rate dropped to a negative number. Fortunately the savings rate has risen, but only to a meager 4.6% in 2009, as a February 2010 press release by the Federal Deposit Insurance Corporation confirms. Personal savings rates are so low that it seems as if people do not have necessary concern for their future. Clearly, an underlying cause of all these problems is a lack of financial literacy. More financial education is necessary for young adults to better the economy.

Financial literacy, promoting proper knowledge and habits, remains important in sustaining a healthy economy and in achieving a good personal financial situation. When young people learn about finance, they will take those skills and habits with them into their adult years. As children best learn about adult responsibilities from their parents and home-life while growing up, it is important to study the transfer of financial knowledge from parent to child. This research assesses the parental perception not only about their financial habits but also their children's.

METHODS

The research for this paper was conducted using interview questionnaires given to parents through phone, e-mail, and in-person (see Appendix A). Six of the ten interviewees were from Gregory County, SD; and the other four were from Brookings, SD. E-mails were sent to the parents of 5th graders in Gregory County; and one phone interview was given to a parent there. Three parents in Brookings were interviewed by e-mail and one in person. These interviews were all conducted between October 12th and 14th, 2009.

Basic demographic questions asked were: age, income, number and age of children, and marital status. A scale was given so the participants could choose their bracket for age and income. Marital status was selected between single and married. The children's information was simply filled in by the participant.

The core questions in the interview were left open-ended to permit various responses. Creswell (2003) explains that the open-ended data leads to a qualitative analysis of the results. Creswell (2003) also describes qualitative research as open to explanation–implying that the interviewer provides their own understanding of the responses. The first questions asked about the participant's ease and frequency in addressing their children about financial matters; and then asked for elaboration. Next, these questions addressed the participant's own financial beliefs compared with that of their children. The last question asked about what could potentially benefit their children's financial futures.

RESULTS

The compiled demographics appear in Table 1. Seven participants are married and three are single. Seven are aged in their thirties, and three are in their forties. The average household income of participants is between $40,000 and $49,000. Three participants reported a household income of $0-$19,000 and five reported the highest income of $60,000+. The median age of the participants' children is eleven years, ranging from two to nineteen. The median number of children in the participants' families is three, ranging from two to six.

Table 1: Participants characteristics

	number of children	marital status	age	children's age	household income ($)
Participant 1:	3	single	30-39	10,13,16	0-19000
Participant 2:	6	married	40-49	8,8,10,11,15,17	60000+
Participant 3:	2	married	30-39	6, 7	60000+
Participant 4:	4	single	30-39	12,13,16,19	0-19000
Participant 5:	3	married	40-49	10,13,16	60000+
Participant 6:	4	married	30-39	2,8,10,12	60000+
Participant 7:	2	married	30-39	7, 17	30-39000
Participant 8:	4	married	40-49	2,15,18,19	60000+
Participant 9:	3	married	30-39	5,9,11	40-49000
Participant 10:	4	single	30-39	9,10,12	0-19000

The responses to the core questions were compared to each other and some prominent findings were discovered. Corresponding figures appear in Appendix B.

All four of the single participants only talk to their children about finances ‘Sometimes’, as well as one married participant. The remaining six married participants talk with their children ‘Often’ or ‘Very Often’ about finances (see Appendix B, Figure B1).

Seven of the participants feel comfortable talking about finance with their children. They all explain that they do so to build their children’s knowledge of finance so they can apply it properly when they are older. Three participants are not at all or only somewhat comfortable talking to their children about finance. They each had different reasons: the parents themselves feel negative about their financial situation, the children do not understand finance, or the parent does not want to stress their children with financial matters (see Appendix B, Figure B2).

When asked how they could increase the amount of time they talk to their children about finances, the participants responded in a few different ways. Three participants said they would simply need to find time to address this matter. Four responded they are unsure. The other three participants responded as follows: do nothing, engage the children as appropriate by age and situation, and make them work more for their money (see Appendix B, Figure B3).

Six of the participants felt that saving money was very important. However, only three felt that their children held the same value (see Appendix B, Figure B4). Only two participants felt very confident in their own financial decisions; four were not very confident and four were somewhat confident. Likewise, only two felt very confident in their children’s financial decisions; three were not very confident and five were somewhat confident (see Appendix B, Figure B5).

The last question, addressing what participants think will best benefit their child’s financial future, produced a variety of responses. Some participants responded with more than one option of ways to help their children’s financial future. Of the ten participants, five responded with just one idea, four responded with two ideas, and one responded with three ideas; creating a total of 16 total responses. The most frequent answer that appeared in eight participant responses was parental influence, or education from home. The other two answers received four responses each: financial education in a school classroom setting, and learning from real world experiences (see Appendix B, Figure B6).

CONCLUSIONS

This research was conducted to learn about personal financial literacy passing from parent to child. It was to show frequency, effectiveness, and a correlation, if any, to lifestyle and personal beliefs. The research shows, on a small scale, what may commonly occur among America’s population.

The supporting idea of this research is that a parent’s personal feelings about finance determine how they pass financial information to their child. The participants who felt comfortable talking with their children about financial matters do so because they want their children to have strong knowledge of personal finance to help with a better future. The participants who do not feel comfortable talking with their children about financial matters either do not understand it themselves, think their children will not understand it, or they do not want their children to stress about it. Two of the three participants who do not feel comfortable talking with their children about financial matters also responded that they are not very confident in their own financial decisions and do not regard saving money as important. The third is only fairly confident in personal financial decisions and is not likely to save money. These results reveal parents who are passing their own feelings about money on to their children.

Other research has also come to this conclusion. Pinto, Parente, and Mansfield (2005, p. 360), presented findings by Cohen & Xiao (1992) and Hira (1997): "financial attitudes and spending behavior … are thought to be transmitted by parents and other influential individuals." Furthermore, Clarke, et al. (2005) explained that the poor financial habits of parents commonly present themselves in their children's lives.

Parental guidance in financial matters is of primary importance. Children learn the most from home. Also, as the results show, parents themselves realize their importance in their children's education. Eight of the ten participants interviewed responded that more interaction from them would help most with their children's financial education and future. Knowing this, there should be more emphasis on parents to help their children understand personal finance.

The connection between lifestyle and financial capability of parents and children is evident in the research. All of the three single participants, who are also the only three in the lowest household income bracket, are the least likely to have financial confidence in themselves and their children. Also, these three participants and their children are the least likely to understand the importance of saving their money. Single working parents do not always have much quality time to spend with their children. This lack of time with their children implies reason for the lack of financial education at home. On the contrary, the four married participants in the highest reported income bracket are the most likely to have financial confidence in themselves and their children. These participants and their children are also the most likely to understand the importance of saving their money and actually practice it. The same conclusion arises in Mandell's (2009) results: students with parents who earn a higher income are likely to score higher on the Jump$tart Coalition survey.

Another observation from the research shows that parents hold different views of when the right time is to teach their children about finance. Some participants only talked about financial matters to their children of upper-teenage years. Half of all the participants made age based comments in some of their responses. They talk with the older children about finance but not the younger. They do not think it is necessary to teach their children about finance until a later age. On the contrary, one participant in particular has children ages six and seven who are already learning about spending and saving and price comparison. The perception of a child's preparedness to learn about finance definitely varies from household to household. If more parents started educating their children earlier about finance, the children may be less likely to develop the poor habits in their early years.

The family is the source of a majority of a child's financial knowledge. This is reflected in other research studies as well as in these results. Pinto, Parente, & Mansfield (2005) offer one reference to this: Children in America feel that most of their financial knowledge came from their parents. Although most of the participants admit that they should be the ones teaching their children about financial matters, many of them still don't have an active involvement with their children on the issue. There must be a way to awaken the parents that are least likely to have financial confidence and financial knowledge; and to help them learn and teach their children. Modern theorists and cultural philosophers agree that parents have a duty to educate and guide their children into taking on mature responsibilities and tasks, as Clarke, et al. (2005) found.

LIMITATIONS

The small number of people interviewed is a limitation. A more thorough collection of data could have been found if more people were interviewed. Also, if more were interviewed from other parts of the state or regions of the country it would give a more broad perspective. A sampling bias is evident as some of the parents who received the interview e-mail might have not responded. Parents who themselves are not comfortable with personal finance may not have responded to the e-mail survey. This limitation is characterized by the unlikelihood of people to freely give information that they are not comfortable with. Also, some families may simply be more private about their financial information.

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APPENDIX A - INTERVIEW QUESTIONS

1) How many children do you have? _________
2) Are you a single parent or are you married? *Single; Married*
3) What is your age? *18-29; 30-39; 40-49; 50-59; 60+*
4) What are the ages of your children? _________
5) What is your household income? *$0-$19,000; $20,000-$29,000; $30,000-$39,000; $40,000-$49,000; $50,000-$59,000; $60,000+*
6) Do you feel comfortable talking with your children about financial matters?
   a) Why?
   b) Does your spouse?
7) How frequently do you and/or your spouse talk to your children about money? *Very Often (2+ times/week); Often (once/week); Sometimes (1-2 times/month); Rarely (1-3 times/year); Never*
   a) Do you think this is enough?
   b) What can you do to increase the number of times you talk to your children about money?
8) How important is saving money to you and/or your spouse?
9) How well do your children understand the importance of saving money?
10) How confident are you in your own financial decisions?

11) How confident are you in your children's financial decisions?
12) What do you feel would help your children most with financial education and their financial future?

APPENDIX B – FIGURES

Figure B1: How frequently do you and/or your spouse talk to your children about money?

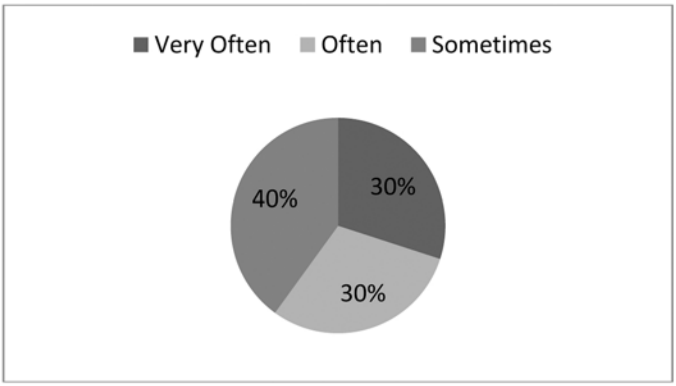

Figure B2: Do you feel comfortable talking with your children about financial matters?

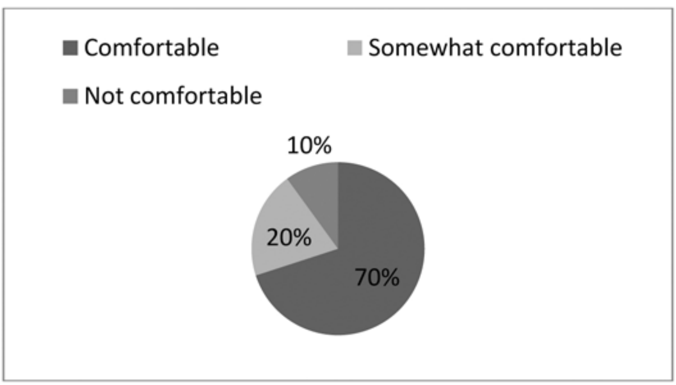

Figure B3: What can you do to increase the number of times that you talk with your children about money?

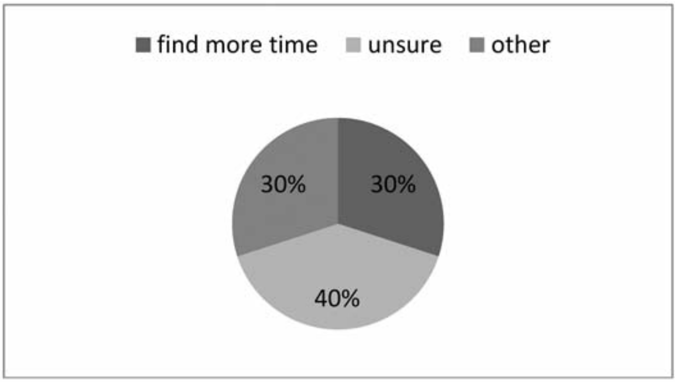

Figure B4: How important is saving money to you and/or your spouse? How well do your children understand the importance of saving money?

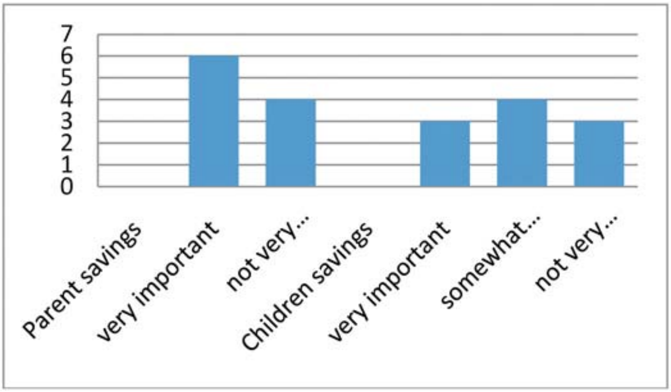

Figure B5: How confident are you in your own financial decisions? How confident are you in your children's financial decisions?

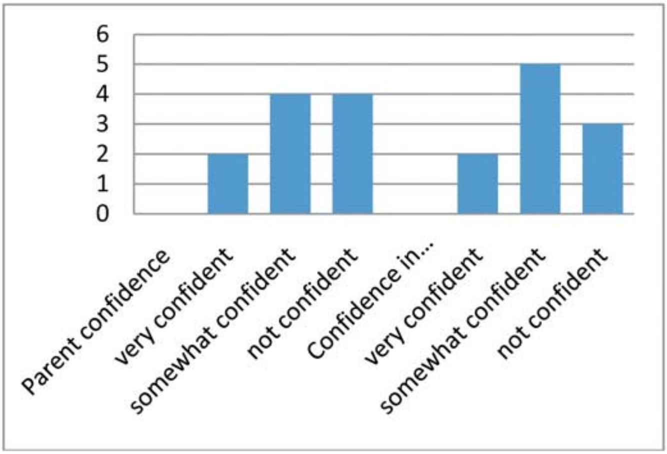

Figure B6: What do you feel would help your children most with financial education and their financial future?