Financial Parenting Over Time: Waning Power, Staying Power, Or Changing Power?

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Positive outcomes during the transition to young adulthood form the foundation for success later in adult life (Eccles et al., 2003. Financial capability is essential for becoming self-sufficient, a key developmental milestone of young adulthood (Arnett, 2004) and the financial behaviors practiced during college contribute to financial capability (Serido et al., 2013). Given their continuing support, parents today may have greater influence on both the well-being and the financial behavior of their grown children.

Parents are instrumental in shaping the financial values and practices of their children (e.g., Shim, Xiao, Barber & Lyons, 2009; Danes & Haberman, 2007). Historically, parental influence declines as children mature; but many young adults today rely on their parents for financial support (FINRA, 2013).

We hypothesized that parental involvement will influence the financial behaviors of their children even after they graduate from college.

Method

Longitudinal survey data was used to examine the associations between parental influence and young adult outcomes. The participants included young adults (N=977; 36% male; 64% female; family financial status: low-income 42%; middle-income 32%; high-income 26%; White 68%; Latino/a 15%; Asian 10%; Black 3%; 4% other/missing) who responded to three waves of data collection over five years. A series of hierarchical regression analyses estimated the relation between parental involvement (communication, modeling) and young adults' life satisfaction, financial satisfaction, and financial behaviors at each wave. All analyses controlled for socio-demographic factors (gender, family financial status, race/ethnicity) and parental involvement at previous waves.

Results

Regarding concurrent associations: parental involvement during the transition to college (wave 1) and as young adults prepared to leave college (wave 2) had significant effects on all three outcomes; as young adults launched careers (wave 3), parental involvement had a significant effect on financial satisfaction and financial behavior but not life satisfaction.

Regarding carry-over effects: overall, parental involvement at earlier waves was not significant in predicting young adult outcomes at subsequent waves. The one notable exception is a continuing effect of parental involvement during the transition to college (wave 1) on life satisfaction (wave 2 β=.092*; wave 3 β=.080+).

Regarding the association of young adults' own financial behavior and each outcome: At each wave, the association between young adults' own financial behavior and both financial and life satisfaction was significant (p<.000).

Conclusions and Implications

Although long-term well-being rests on the shoulders of the individual, parents are playing a continuing role in the lives of their young adult children. The present study finds that parents' concurrent (within wave) financial socialization (communication, modeling, explicit teaching, and monitoring) plays a significant role in young adults' positive financial and life outcomes. These findings suggest that, in addition to providing instrumental financial support (FINRA, 2013), parents are also providing guidance and advice to their grown children. In the current changing and uncertain economic climate, this approach may be an effective way to assist young adults in establishing independent households.

The weak carry-over effects of earlier parental involvement on later outcomes may suggest that parents financially socialize their grown children differently over time. As young adults mature, they encounter changing personal and external circumstances and assume more demanding social roles.

Thus, it makes sense that parental guidance reflects the types of situations their children are actually facing.

Although parents play an important role, in the face of ever-increasing complexity of young adults' financial decisions, young adults' will need to seek advice and information from multiple sources, including personal classes and seminars, online tools, financial professionals and counselors.

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