Having Mom and Dad Pay for College: Financial Advantage or Disadvantage?

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In American society there is a fairly common expectation that parents will pay for their children's college education if they are financially able. According to Holmstrom, Karp, and Gray (2004), some of the reasons higher income and more educated parents pay for their children's education include: the perceived benefits of a college education, the belief that it is an expectation or "part of one's perspective on the world," and the idea that more money spent is correlated to a better education (p. 12).

A recent study by the National Center for Education Statistics (U.S. Department of Education, 2004) shows that about 65% of recent college graduate have student loans, with an average student loan debt of $19,300. The average cost of college increases at twice the rate of inflation; the College Board estimates that public school costs an average of about $13,000 a year and private schools costs $28,000 (U.S. Department of Education, 2007). Leaving college and starting new careers with this type of debt load could be devastating to the future financial situation of a young adult or it could encourage excellent money management skills.

Côté (2002) reported that students who pay for most of their own college educations appear to make a more rapid transition to adulthood. A study by Taylor and Overbey (1999) concluded that poor financial information and unrealistic expectations contributed to future financial problems for students. Is it possible that parents' continued financial support of their children throughout college may lead to unrealistic expectations about finances and, ultimately, poor financial management skills? The inability to manage personal finances can have negative, long-term consequences for young adults.

The purpose of this study was to look at the differences between students whose parents primarily pay for their schooling and students who take on the financial responsibility of paying for college either through student loans or jobs. The following questions were addressed. Do students who use their own money (student loans, a job, or savings) to pay for the majority of their schooling tend to have better money management behaviors than students who depend on parents or grants? Do students who use their own money to pay for the majority of their schooling tend to be more mature students than students who depend on parents or grants?

For the purposes of this study, mature students were defined as students with higher scores on measures of *general confidence and positive sense of self, positively goal oriented at school*, *general concern and preparation for the future*, and *positive adjustment to college* (Strage, 1998).

Methodology

Survey data were collected from 456 undergraduate students enrolled in introductory psychology classes at two state universities in a southern state. Data collection took place during spring 2006 and the data from the two universities were pooled. The universities are approximately 100 miles apart. The students received extra credit points for participating.

Measures

A series of yes/no questions regarding financial management behaviors were asked (see Table 1). Based on work by Strage (1998), likert-scale questions (1 = strongly disagree to 5 = strongly agree) were tallied to calculate the categories of: a) *general confidence and positive sense of self*, b) *positively goal oriented at school*, c) *general concern about preparation for the future,* and d) *positive adjustment to college.* A variety of demographic questions and other measures of risk-taking behaviors were also asked (Blinn-Pike, Worthy, Jonkman, & Smith, in press).

Sample

The sample had a mean age of 19.72 years (*SD* = 1.64). Students were from a variety of majors (i.e. arts and sciences-45%, business-18%, education-10%, applied and life sciences-10%, engineering- 6%). Seventy-eight percent were freshmen or sophomores. The sample was 56% female. In terms of race, the sample was 74% (336) White, 23% (104) African-American, and 3% (15) were "other." Seventeen percent (78) of the sample reported receiving public assistance (food stamps, Medicaid, and/or free/reduced price lunch) while growing up (58 or 57% of African Americans and 19 or 6% of Whites). As was expected, race and receipt of public assistance during childhood were highly correlated (χ^2 = 141.61, p = .000). Two percent of the sample was married and 9% were parents.

When asked where most of the money to pay for college (i.e., books, fees, tuition) comes from, 54% (247) said parents, 18% (84) said grants, 20% (89) said student loans, and 4% (20) said job or savings. The categories of student loans and job or savings were collapsed for all analyses. Three percent of students (12) indicted the money to pay for college came from other relatives or spouse, but these students were excluded from all analyses.

Findings

To determine whether students who paid their own way through school had better money management behaviors, a series of crosstabs and Chi-squared tests were run (see Table 1). Students who were supporting themselves through school appear to have had more financial difficulties than students whose parents supported them. However, nearly 50% of students from all payment groups had overdrawn their checking account in the past year.

Table 1

Crosstabs of Money Management Behaviors and College Payment Method

In the last year I have:		Parents *n* (%)	Grants *n* (%)	Student Loans, Job, Savings *n* (%)	X^2
Spent my student loans(s) or scholarships on non-school things and/or activities	Yes	14 (5.7)	28 (33.7)	44 (41.9)	73.253***
	No	232 (94.3)	55 (66.3)	61 (58.1)	
Had trouble being able to pay my bills	Yes	23 (9.4)	28 (33.3)	40 (37.0)	44.626***
	No	222 (90.6)	56 (66.7)	68 (63.0)	
Gotten a job because I needed the money	Yes	89 (36.2)	32 (39.0)	70 (64.8)	25.939***
	No	157 (63.8)	50 (61.0)	38 (35.2)	
Thought about dropping out of school and working	Yes	28 (11.4)	12 (14.6)	36 (33.3)	25.675***
	No	218 (88.6)	70 (85.4)	70 (66.7)	
Had to borrow from friends or family to pay my bills	Yes	39 (15.8)	18 (22.2)	37(34.6)	15.583***
	No	208 (84.2)	63 (77.8)	70 (65.4)	
Maxed out my credit cards	Yes	26 (10.7)	18 (21.4)	25 (23.1)	11.222**
	No	218 (89.3)	66 (78.6)	83 (76.9)	
Pretended I have more money than I do	Yes	44 (17.9)	21 (25.9)	36 (33.3)	10.455**
	No	202 (82.1)	60 (74.1)	72 (66.7)	
Wrote at least one check that I knew was bad	Yes	27 (10.9)	9 (10.8)	21 (19.4)	5.237
	No	220 (89.1)	74 (89.2)	87 (80.6)	
Overdrawn my checking account	Yes	112 (45.5)	40 (48.8)	46 (43.0)	.628
	No	134 (54.5)	42 (51.2)	61 (57.0)	

*$p \leq .05$, **$p \leq .01$, ***$p \leq .001$

ANOVAs were run to determine whether self-supporting students were more mature students. Students who support themselves through college did have a slightly higher mean *general confidence and positive sense of self* score, but there were no significant differences among groups for the other measures of maturity.

Table 2

ANOVAs of College Payment Method and Student Maturity Measures

		N	*m*	*SD*	*F*
General Confidence and Positive Sense of Self	Parents	247	12.27	2.60	2.847*
	Grants	84	12.52	2.46	
	Loans/Job/Savings	109	12.95	2.26	
Positively Goal Oriented at School	Parents	246	10.99	2.51	.156
	Grants	84	10.95	2.31	
	Loans/Job/Savings	109	11.13	2.37	
General Concern and Preparation for the Future	Parents	247	16.12	2.51	.822
	Grants	84	15.77	2.56	
	Loans/Job/Savings	109	15.85	2.40	
Positive Adjustment to College	Parents	246	15.15	2.63	.583
	Grants	83	15.24	2.66	
	Loans/Job/Savings	109	15.48	2.74	

*$p \le .05$, **$p \le .01$, ***$p \le .001$

Implications

Results from this study indicate students who have parents that are financially supportive have better money management behaviors, or at least less financial problems, than students who are supporting themselves through student loans, a job, or savings. The results do not show any difference among groups concerning goal orientation, preparation for the future, or adjustment to college. Future research should include longitudinal data to determine whether dependence on parents during college may lead to increased dependence on parents for young adults in their 20s and 30s and, thus, weaker financial management skills in the long run.

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