Emerging Adults and their Financial Attributes and Behaviors

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Policymakers, academia, researchers, and practitioners have raised serious concerns about low financial capability, which is defined as both an ability to act and opportunity to act, of young Americans (18-24 years), a group which makes up a substantial 13 percent of the entire adult population in the United States (Cook et al., 2014). This age group, termed as emerging adulthood, faces dual burden of carrying out tasks required in transition from adolescence to formal adulthood (Arnett, 2015). Emerging adults encounter challenges relating to financial and social independence (Arnett, 2000). They are at the lowest earning potential of their entire occupational lives and bear different financial burdens like handling personal expenses and college debt (Friedline & West, 2016). They are at the legal age where they could enter into an agreement and sign contracts (Xiao, Ahn, Serido, & Shim, 2014). These required encounters that make them the most vulnerable segment of the entire young population, given their little or no experience of dealing with complex information and sophisticated socioeconomic systems, like financial system.

Financial education through trainings and workshops in colleges and universities are popular means to reach out to emerging adults, so that they could learn to perform sound financial behaviors in their day-to-day lives (Friedline & West, 2016). However, the evidence of success of financial education efforts with youth has been mixed. Despite this, there is a consensus that improving financial capability might positively influence the economic and financial well-being of the young people (Johnson & Sherraden, 2007; Loke, Choi, & Libby, 2015). Lack of customized trainings and workshops discourage many participants to enroll or participate in financial trainings. One solution is to customize trainings or workshops for individuals, but individual customization has cost implications. Group-level customization, based on similar characteristics of individuals, on the other hand, requires greater knowledge about how individuals are grouped together based on their financial capabilities.

There exist a body of literature examining different aspects of young (and not emerging) adults and their financial capabilities, but there is not a known study classifying emerging adults based on their financial capabilities in the United States or elsewhere. Classifying people in groups allows identification of group-based characteristics or patterns, which later helps in developing “customized or tailor-made” interventions specific to that group only. Person-oriented approach for classifying individuals into different homogenous groups has received attention of social and behavioral sciences scholars in recent years. Latent class analysis (LCA) is one such person-oriented approach to group individuals into varying profiles based on analyzing different variables simultaneously. However, an important thing to note here that these profiles are not known a priori. It is only after the analyses, one can interpret the final class solutions. These profiles are useful to design customized programs to meet varying needs of the individuals. Hence, the present research study aimed at identifying meaningful groups of emerging adults with common characteristics based on a range of financial behaviors, perceptions of financial wellbeing, and financial socialization, all affecting financial wellness.

Methods

The sample consisted of data from 2015 National Financial Capacity Study (NFCS) dataset, a survey funded by Financial Investor Regulatory Authority (FINRA) Investor Education Foundation. We used a total of 3,050 respondents in the age-group of 18-24 years (emerging adults) out of the total sample of 27, 564 respondents, who participated in this survey.

The NFCS dataset had several questions regarding overall financial wellbeing of the people. To answer our research question as to how do emerging adults differ in terms of different financial attributes and behaviors required identifying and transforming items from the NFCS. We used financial capability

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and asset building approach as our conceptual model to develop variables from the items (Sherraden, 2010). Hence, our search for identification of measures started from financial socialization followed by financial education / literacy, financial behaviors and coping mechanism for financial wellbeing.

We identified different questions and combined them to develop a particular measure for 13 variables of interest. All the variables were dummy coded. However, in the cases, where such distinct classification was not possible, we used median to dummy code the variables. Additionally, we used the following variables (a) gender (b) race (c) education (d) marital status (e) income, and (f) employment status to see if there is a demographic variation.

We used latent class analysis (LCA) to group emerging adults based on different configurations of financial socialization, behaviors, actions and vulnerabilities. Our analyses intended to identify groups of emerging adults who were similar to each other but different from emerging adults in other groups. Mplus version 8 was used to perform the analyses. After selection of final model, we used AUX function in Mplus to compare groups based on demographics – (a) gender (b) race (c) marital status (d) employment status (e) education, and (f) income.

Results

To select the best model, we examined the model fit indices. Our analyses suggested four-class model that has the lowest BIC and aBIC. LMR also supported models until the fourth class. The results indicate four primary classes of emerging adults on different financial actions and behavior: (a) Financially precarious (32%) – those who belong to the highest number of categories with low-scores (b) Financially at-risk (36%) – those who are low on investment and are financially vulnerable. However, they also show the tendency of being in the low to moderate in many other financial attributes (c) Financially striving (10%) involves group of people, who score high to moderate on most of the indicators except actual financial literacy, irresponsible spending, credit card, and health financial behaviors and (d) Financially stable (22%) are those who are high on all the indictors except moderate levels of perceived financial literacy, banking access, risky health financial behaviors, AFS usage, and financial tolerance.

Across the patterns, there were distinct demographic differences. More males were in the pattern of financially striving group. More white youth were in the financially stable group. Married emerging adults were found to be in financially striving and financially at-risk groups. More employed were represented in financially striving category. Similarly, more emerging adults with bachelor or higher degree were observed in financially stable category. Emerging adults with low-income were found to be in financially precarious and at-risk categories whereas high-income were found to be in the financial stable category.

Conclusion

Using a nationally representative dataset and a rigorous statistical method, this study is among the first in the consumer research domain to identify patterns of financial attributes and behaviors among emerging adults at the latent levels. Our study demonstrates differences in the patterns of emerging adults on different financial attributes. The analyses clearly show that prescriptive one-size-fits-all approach adopted by States and other agencies to improve financial wellbeing of the emerging adults may not be effective in the long run. It also recommends designing programs based on the different patterns of financial attributes and behaviors of emerging adults.

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