



# ResearchLink

## A Roadmap for Young Adults' Financial Well-Being

*A diverse team of researchers offers a new model for understanding what factors shape young people's financial decision-making and well-being. Two studies highlight links between the role of parents, work, and education and young people's positive financial habits. These findings guide a long-range project to look at how individuals' financial behaviors develop and change over time.*

### Changing Perspectives on Financial Well-Being

Why do so many young people struggle to manage money and find themselves deep in debt as they enter adulthood? Today's troubling economic climate is only part of the story. What it means to become a financially

self-sufficient adult has also become less clear-cut. The chart below highlights how events that mark adult status have changed. It also shows how financial environments have become more complex and demand new skills.

These changing contexts suggest that actual achievements may no longer be the main signs of adulthood. Today's key markers may come from the ability to take personal responsibility for one's behavior regarding money. This ability includes making wise financial decisions independently and paying off debts on time. Yet how do young adults develop and maintain this ability? Some people stumble at first but then succeed financially, and others fall. What sets them on different pathways? The best place to find the answers may be the period from adolescence to young adulthood.



### Changing Contexts of Financial Independence

#### EVENTS THAT MARK ADULT STATUS

##### THE PAST

- employment
- college graduation
- home ownership
- early marriage
- children after marriage

##### TODAY

- delay college or take longer to graduate
- often move back in with parents
- typically delay marriage
- may have children before marriage

#### FINANCIAL ENVIRONMENT

##### THE PAST

- steady job in one company
- retirement pension, life insurance, health coverage
- simpler financial options: checking, saving, home mortgage

##### TODAY

- change jobs often
- must protect one's own financial future
- complex, multiple financial tools: credit cards, home equity credit lines, money markets



# A Roadmap for Young Adults' Financial Well-Being

## About the Studies

Until now, research on financial well-being has focused mainly on two areas. One is personal spending and saving—how a person's credit card use is related to personal health and financial problems. The other is consumer socialization—how individuals learn to make decisions about how and when to buy things. But little is known about the process by which people develop financial habits over time that affect their financial well-being. To understand this process, a multidisciplinary team of researchers at The University of Arizona developed a model of financial well-being. The model identifies factors related to financial habits and predicts how these factors relate to each other. It is guided by two key theories:

**1. The theory of consumer socialization.** Adolescents learn financial habits by watching parents and learning at school and work. That knowledge is expected to influence their financial attitudes. Positive attitudes serve as a signal of healthy financial behaviors; these behaviors help young adults achieve their financial goals.

**2. The theory of planned behavior.** What individuals actually do is influenced by their intentions; their intentions are influenced by three attitudes or beliefs. The first is one's own attitude about whether a behavior is good or bad. The second is what one believes one's parents think about the behavior. The third is one's belief about how easy or hard it is to do the behavior. The attitudes themselves are influenced by individuals' personal values.

To test the model's accuracy, the researchers carried out a study and found support for the model's predictions. Next they fine-tuned it. Then they designed a long-term project to look at the processes by which individuals' develop financial behaviors over time.

## Study 1

In fall 2006, the researchers collected online data from 1,197 students at a large state university in the southwestern United States. The study looked at money-related factors that influenced students during adolescence, such as parents' financial values and behaviors. Then they connected these factors with students' financial behaviors and well-being in college.

## Key findings:

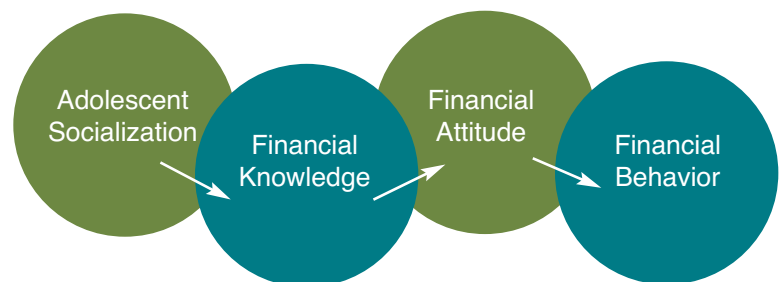
- Students whose parents talked with them regularly in high school about money management had more financial knowledge; so did students who took money-related classes. More knowledge was related to more positive intentions to behave in financially responsible ways.
- Students' personal values (e.g., the importance of having self-respect) were related to their financial attitudes. Likewise, financial attitudes were related to students' intentions about how they would handle money.
- Students' negative financial behaviors were related to poor financial and health outcomes (e.g., debt and depression).
- Their positive financial behaviors were related to good outcomes (e.g., school success and life satisfaction).

## Study 2

Using the findings from Study 1, the researchers fine-tuned the financial well-being model (see "Financial Socialization Processes Model"). They then designed a long-term project to test the model, by following a group of students through college and into adulthood. The project is called the Arizona Pathways to Life Success for University Students (APLUS). The goal of APLUS is to better understand three areas:

- 1) What factors influence how young people form positive attitudes and behaviors about money?
- 2) How do financial attitudes and behaviors change over time, and what causes that change?
- 3) How do these attitudes and behaviors relate to financial well-being and life success in adulthood?

## FINANCIAL SOCIALIZATION PROCESSES MODEL



*Parents play an important role in teaching adolescents about financial behaviors. What adolescents learn about handling money influences their financial attitudes. Their financial attitudes, in turn, influence their financial behavior.*



The APLUS researchers invited all 6,100 students of the 2007 freshmen class at The University of Arizona to participate in the long-term study. One-third of the students (2,098) agreed. The majority was White (67%), lived in-state (69%), and consisted of 62% females and 38% males. The purpose was to learn how experiences with finances before coming to college contributed to the APLUS students' current financial attitudes and behaviors. The students were asked about their perceptions of their parents' financial behaviors and talks with them about money. They were also asked about their high school work experiences and money-related school classes.

#### **Key findings:**

- *Support for the model:* Students' reports were consistent with the process outlined in the model. Early socialization about money was related to students' financial knowledge. Likewise, financial knowledge was related to their financial attitudes, which in turn was related to their financial behavior.
- *Parents' role:* Students' sense of their parents teaching and modeling financial habits when they were teenagers were linked to their financial behaviors in college. The impact of parents' actions was greater than work experience and money-related classes combined.

- *Financial knowledge:* On average, the group scored 59 percent on a standard test of financial literacy. Though low, this score is consistent with the national average for this age group.
- *Risky financial behaviors:* 72.5% reported at least one risky behavior (e.g., not paying bills on time) or one extreme behavior (e.g., taking out payday loans) in the previous six months; 12.7% reported four or more such behaviors during that time. Nearly one in five used some extreme strategy for meeting day-to-day financial needs.
- *Well-being:* Males reported higher financial well-being, females reported higher academic well-being. Whites reported higher well-being across all ethnic groups. Out-of-state students reported better health and relationships with friends than in-state students.

*“If parents model healthy financial behaviors and teach money management skills, the payoff can be very high for their children throughout their adult lives,” says Dr. Soyeon Shim, professor, director of the John and Doris Norton School of Family and Consumer Sciences at The University of Arizona, and the lead researcher of the APLUS project.*

### **Implications of Findings**

- Young people today face different financial challenges than their parents did. They also accrue greater debt at younger ages, largely due to high college costs. More than ever, they need to gain skills to take a more active, responsible role in their personal finances.
- Parents need to be aware of the important role they play in teaching their children positive financial habits. What they say about money and how they show financial behavior stays with adolescents into young adulthood.
- The more financial knowledge adolescents have, the better their financial behaviors. Adolescents bring skills and attitudes they learn from money-related classes and paid employment to their college experiences. Thus, financial education is best started in high school.

Teachers need to include in their courses lessons that address habits related to healthy financial behaviors. These lessons may be particularly important for youth whose life circumstances make it hard to learn them at home.

- Researchers need to better understand the role that socialization plays in young people developing good financial skills. They also need to know more about how outcomes from financial behaviors, as well as positive financial practices, affect young adults' overall well-being.

### Future Directions of APLUS

APLUS was designed as a 10-year project to look at how individuals' financial behaviors develop and change over time. The first study included collecting and analyzing results from the pre-college experiences of first-year undergraduate students. In spring 2009, a group of APLUS students were asked how the recent economic crisis affected their finances and well-being. Findings from this study will be available in early 2010. To learn more, please visit our web site: <http://aplus.arizona.edu/>.

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This *ResearchLink* summarizes the following three reports:

- (1) Shim, S., Xiao, J. J., Barber, B. L., & Lyons, A. C. (2009). Pathways to life success: A conceptual model of financial well-being for young adults. *Journal of Applied Developmental Psychology*, 30, 708-723.
- (2) Shim, S., Serido, J., & Xiao, J. J. (2009). *Arizona pathways to life success for university students: Cultivating positive financial attitudes and behaviors for healthy adulthood*. Tucson, AZ: National Endowment for Financial Education and the Take Charge America Institute/ University of Arizona.
- (3) Shim, S., Barber, B. L., Card, N. A., Xiao, J. J., & Serido, J. (2009). Financial socialization of first-year college students: The roles of parents, work, and education. *Journal of Youth and Adolescence*, available online first at [http://tcainstitute.org/working\\_papers/shim\\_et\\_al\\_JYA.pdf](http://tcainstitute.org/working_papers/shim_et_al_JYA.pdf).

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