Children and Youth Services Review 93 (2018) 178–185

Contents lists available at ScienceDirect

Children and Youth Services Review

journal homepage: www.elsevier.com/locate/childyouth

Patterns of financial attributes and behaviors of emerging adults in the United States

Gaurav Sinha*, Kevin Tan, Min Zhan

School of Social Work, University of Illinois, Urbana-Champaign, United States

ABSTRACT

The growing socioeconomic and market complexities require all young adults to make sound financial decisions, yet a large number of them lack the necessary skills and knowledge. Literature on identifying the latent financial characteristics of American emerging adults are sparse. Based on the 2015 National Financial Capability Study, the present research explores heterogeneous patterns in financial attributes and behaviors of emerging adults (N = 3050, 18–24 years). Results indicate four different classes. More than half of the emerging adults were found to be financially precarious (32%) or financially at-risk (36%) who scored low on several financial attributes and behaviors. Financially striving (10%) and financially stable (22%) scored moderate to high on these indicators. Findings suggest that a deeper understanding of patterns of financial behaviors and attributes of emerging adults can help in designing appropriate need-based programs and increasing their program participation. Understanding this diversity in financial capabilities of emerging adults has implications for their economic wellbeing and financial socialization of their eventual children. Findings have implications for policymakers, practitioners, and socialization agencies, including families and parents.

1. Introduction

Financial independence is a major developmental milestone during the emerging adulthood (18–25) years (Arnett, 2000). Previous studies of emerging adults show that a large number lack necessary skills and knowledge to make appropriate financial decisions (Serido & Deenanath, 2016; Shim, Serido, Bosch, & Tang, 2013; Terriquez & Gurantz, 2014). These limitations may impact their future economic wellbeing (McCormick, 2009). Lack of financial knowledge and skills are also major contributors to stress levels and poor academic outcomes among emerging adults (Lim, Heckman, Montalto, & Letkiewicz, 2014; Trombitas, 2012). On the other hand, those who acquire healthy financial behaviors in their emerging adulthood years are likely to sustain it over years (Grinstein-Weiss, Spader, Yeo, Taylor, & Books Freeze, 2011). Healthy financial behavior also helps people avoid committing costly financial mistakes in the future like defaults on credit cards or using alternative financial services (AFS). Emerging adults' healthy financial behaviors and attributes can also affect the economic wellbeing and financial socialization of their eventual children.

Cognizant of the importance of inculcating healthy financial behaviors among emerging adults, American policymakers have been seeking ways to promote financial literacy for almost two decades now (Fox, Bartholomae, & Lee, 2005; National Endowment for Financial Education, 2018). Various states have policies and programs promoting financial education (Council for Economic Education, 2016). However, emerging adults are less likely to take advantage of those financial education opportunities than older age groups (McDaniel, Montalto, Ashton, Duckett, & Croft, 2014; Mottola, 2014). A deeper understanding of the constellation of factors that influence financial behaviors and attributes of emerging adults might make the financial education programs effective, but the existing literature on mapping this diversity is sparse (Szczepkowski & Demakis, 2017).

The present study is aimed at identifying meaningful groups of emerging adults with common characteristics based on a range of financial behaviors and attributes that affect their financial wellness. It focuses on the research question, how do emerging adults differ in terms of different financial attributes and behaviors? There are no known studies that have identified the patterns of financial capabilities of emerging adults in the United States, and thus it addresses a significant gap in the literature. It does so through a taxonomy of knowledge among respondents, using a nationally representative dataset. It also mapped the identified groups on to different demographic indicators to see if the proportion of financial capabilities differ according to gender, race, education, employment, marital status, and income. We believe that understanding the patterns of financial behaviors of emerging adults and how these patterns relate to different demographic indicators can inform the planners and implementers of financial education in productive ways potentially making a significant contribution to the financial health of the nation.

* Corresponding author.
E-mail address: gsinha2@illinois.edu (G. Sinha).

https://doi.org/10.1016/j.childyouth.2018.07.023
Received 1 April 2018; Received in revised form 18 July 2018; Accepted 18 July 2018
Available online 19 July 2018
0190-7409/

2. Conceptual model

The growing economic uncertainties and technological advancement in financial services have necessitated strengthening the financial capabilities of young Americans (Bent-Goodley et al., 2016). However, improving financial knowledge and skills is only a part of the solution to impact financial wellness. Sherraden's (2010) theoretical approach, Financial Capabilities and Asset Building (FCAB), proposes financial wellness as a function of financial socialization together with financial knowledge and skills, and financial inclusion (diagrammatic representation of the model can be found on p.15 of https://csd.wustl.edu/publications/documents/wp10-17.pdf).

Sherraden postulates that interventions that seek to improve financial wellbeing should focus not only on developing abilities to act (i.e. financial skills and knowledge) but also on providing opportunities to act (i.e. opportunities to interact with financial institutions). This reflects an understanding that merely changing individual's behavior (the demand-side factor) will not create financial capability, without making institutional changes in the society (the supply-side factor). This embedded duality in the FCAB approach makes it distinct from other narrower approaches, like financial literacy only and financial inclusion only approaches (Sherraden, 2010).

In the present research, we decomposed the FCAB model to understand the typologies based on emerging adults' financial wellbeing. To inform our research, we identified various elements from the FCAB model that affect the financial wellbeing of the individuals. We included behaviors and attributes of individuals relating to financial socialization, financial education/literacy, and financial inclusion parameters (e.g., bank account ownership) that shape their financial behaviors.

3. Literature review

Emerging adults are considered legally capable of making sound financial decisions, like signing loan contracts, as soon as they turn 18 (Xiao, Ahn, Serido, & Shim, 2014). In the emerging adulthood years many get their first opportunity to interact independently with a bank or a financial institution. This systems require a certain level of preparedness that research shows many do not possess (Mottola, 2014). For example, studies on college graduates have demonstrated lack of personal financial skills and knowledge (Avard, Manton, English, & Walker, 2005; Chen & Volpe, 2002; Robb, 2011). Research also shows that emerging adults find dealing with newly acquired financial roles to be overwhelming (Borden, Lee, Serido, & Collins, 2008). Trombitas (2012) identified financial factors such as loans as the top four out of five stressors of college students, and Borden et al. (2008) and Lim et al. (2014) tied poor financial wellbeing to poor academic outcomes and heightened risk of suicide among students. Unwise decisions can also lead to years of debt or low credit scores. A poor credit score can not only restrict access to a home mortgage, car loan, or other kinds of loans,; it increasingly shapes employment opportunities (O'Brien & Kiviat, 2018).

Research indicates that the financial behaviors acquired during emerging adulthood persist for a long time (Shim, Barber, Card, Xiao, & Serido, 2010). It also identifies a constellation of factors that shape such behaviors. The subsections below discuss these factors in detail. We first discuss how the literature that builds on how financial socialization influences financial wellbeing. We then give an overview of the studies that take into account the individual correlates influencing financial wellbeing. Finally, we review the literature, which discuss the constellation of financial behaviors and attributes.

3.1. Financial socialization and financial wellbeing

Sociological institutions like families, educational institutions, and workplace play an instrumental role in shaping the financial behaviors and attributes of emerging adults. Financial socialization by parents is the base of emerging adults' future financial behaviors and attributes (Lee & Mortimer, 2009; Levesque, 2011). In their critical review of 40 years of literature, Gudmunson and Danes (2011) emphasized that initiatives that focus on changing financial behavior have largely ignored the role of family financial socialization.

Research also credits educational institutions, both secondary and post-secondary school, with shaping emerging adults' financial behaviors (McCormick, 2009; Shim et al., 2010). Such institutions offer training in various formats in the development of healthy financial behaviors. Increasingly state-level mandates call for school-based financial education/training programs for adolescents and youth (Bernheim, Garrett, & Maki, 2001; Lusardi & Mitchell, 2014). Universities and colleges also offer programs to enhance the financial wellness of the young population (Alban, Britt, Durband, Johnson, & Lechter, 2014). However, most emerging adults tend to learn about managing complex financial transactions on the job. Evidence from studies show that working youth are likely to be more financially literate than non-working youth (Mandell & Hanson, 2009; Shim et al., 2010). Both informal and formal financial socialization opportunities are available for emerging adults on the jobs. While informal discussions with fellow employees (or seniors) influence their financial behaviors, many employers offer workplace-based financial education training to their employees, which has shown positive impact on employees financial behaviors (Lusardi & Mitchell, 2007, 2014).

3.2. Individual correlates of financial wellness

Studies have found gender and education predict individual financial behaviors (Chen & Volpe, 2002; Robb & Sharpe, 2009). For instance, being a female increases the likelihood of running credit card debt (Robb, 2011). Regarding the impact of education, Cole, Paulson, and Shastry (2014) found that one additional year of schooling increased the likelihood of reporting positive investment income by 7.5 percentage points. They also found that higher level of schooling was significantly associated with higher credit scores on average and less likelihood of being delinquent, declaring bankruptcy, and experiencing a foreclosure (Cole et al., 2014).

Research also shows that ownership of a bank account at an early age correlates with a greater likelihood of accumulating savings, diversifying investments, and maintaining a long-term relationship with mainstream financial institutions (Friedline & Elliott, 2013; Friedline, Johnson, & Hughes, 2014). Indeed, access to a bank account reduces individuals' likelihood of using high cost borrowing services like AFS providers (Birkenmaier & Fu, 2016a).

Furthermore, risky financial behaviors such as impulsive spending, carelessness in using credit cards, and irresponsible debt behaviors influence the financial wellness of emerging adults. Emerging adults tend to be more profligate (Anderson & Card, 2015) and exhibit more risky credit card behaviors (Hancock, Jorgensen, & Swanson, 2013) than their elders. College dropouts are at particularly high risk of carrying credit card debt (Hancock et al., 2013).

In addition, data from Federal Reserve Board shows that nearly half of the Americans population does not have enough savings to attend to a $400 on hand for an emergency (Gabler, 2016). Similarly Pew Charitable Trust's survey reported a similar finding that one in three families in America has no does not have savings at all (Mcgrath, 2016). Such low financial tolerance and high financial vulnerability is a worrisome trend that might affect emerging adults in the future through low asset accumulation and lower retirement savings (Cole et al., 2014).

Besides, rising medical expenses have become a source of financial distress for many people (Patel, Kruger, Cupal, & Zimmerman, 2016). Research has shown that about 28% people, especially young people, tend to avoid visiting doctors or filling up prescriptions because of cost concerns (Lin et al., 2016). Risky health behaviors like cost-related