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The role of parents in college students' financial behaviors and attitudes

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ABSTRACT

This study examined how parents' teaching and modeling of financial concepts affects college student credit card debt ($n = 173$). Parental hands-on mentoring of financial skills was most strongly related to lower levels of credit card debt and this relationship was partially mediated by it leading to greater financial delay of gratification and less impulsive credit card purchasing which in turn were related to less problematic credit card use. Having parents who struggled with debt was not significantly related to debt although having parents who avoided talking about finances predicted problematic credit card use. Students' beliefs that their parents would bail them out of debt were related to lower levels of debt. Financial knowledge and parental verbal instruction appear to have complex relationships to credit card debt.

1. Introduction

As concern about credit card debt among college students has risen on campuses and among policy makers, researchers have striven to understand the factors that increase the risk of debt. Several predictors have emerged, including situational variables, personality characteristics, and financial education. However, the role of parents in preparing their children to handle finances wisely has yet to be fully explored. The present study sought to examine the relative contribution of a number of predictors of credit card debt, including parental influences, financial knowledge and behavior, and delay of gratification in a group of American college students.

Credit cards have become a way of life for many college students. According to Sallie Mae (2009), 84% of American college students have at least one credit card, a number that has increased from 76% just five years ago (Nellie Mae, 2005). Further, the average credit card debt for college students has increased to $3173. This is strikingly high relative to student income, the average of which is just under $8000 per year in the United States (Norvilitis et al., 2006).

Despite the high average balance, many students manage credit well. Indeed, 22% report paying off their credit cards monthly and 67% reported having a balance of less than $3000 (Sallie Mae, 2009). Others have reported similar trends. In a study of American college students, Norvilitis, Szablicki, and Wilson (2003) found that 32% of the college students they surveyed paid off their debts monthly, and The Education Resources Institute's (TERI) Credit Risk or Credit Worthy study

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found that 59% of American students regularly pay off their credit cards (The Educational Resources Institute (TERI), 1998). Furthermore, most students appear to have realistic attitudes toward credit cards and the repayment of money (Warwick, Mansfield, & Cook, 2000).

However, among those with high balances, there are consequences to credit card debt. Students with high debt levels report a decreased sense of financial well-being and higher overall levels of stress (Norvilitis et al., 2003; Norvilitis et al., 2006). In a study of British adults, nonsecured debt was found to have negative consequences on psychological well-being, but secured debt (i.e. a mortgage) did not, suggesting that credit card debt may be particularly stressful (Brown, Taylor, & Price, 2005).

Given that most students do not have difficulty with credit, the task for researchers is to identify characteristics of those most likely to be in debt. Such characteristics fall into three general categories: situational and demographic variables, financial education, and personality characteristics.

1.1. Situational and demographic variables

Several situational and demographic variables have been examined. Among those related to credit card debt are year in college, with debt increasing with each year in college in a study of New Zealand students (Boddington & Kemp, 1999). Further, in studies in both the United States and England, as students age, they appear to become more tolerant of debt and acquire more credit cards (Davies & Lea, 1995; Hayhoe, Leach, & Turner, 1999), a factor that appears to be statistically independent of academic year in college when both are included in analyses (Davies & Lea, 1995). The number of credit cards held has been found to be predictive of debt, although this relationship may be circular such that those with more debt acquire more cards and those with more cards may acquire more debt. Finally, the frequency of use also has been found to be predictive of debt (Davies & Lea, 1995). Conversely, neither gender nor grade point average appear to be related to college student credit card debt (Norvilitis et al., 2006; Pinto, Parente, & Palmer, 2001), though Pinto and colleagues noted that those with higher academic performance were more anxious about their debt.

1.2. Financial education

Students' financial education also plays a role in predicting debt. College students know little more about finances than high school students do, but have much more freedom to make their own choices about money. The JumpStart Coalition for Financial Literacy surveys American 12th graders every five years to assess knowledge of financial topics, including credit. In the most recent administration, just 50.2% of questions were answered correctly (JumpStart Coalition for Personal Financial Literacy, 2002). When this same survey was given to college students, students averaged just 60% correct. Further, a lack of financial knowledge was related to increased levels of debt (Norvilitis et al., 2006).

Other studies report a similar lack of knowledge. Warwick et al. (2000) found that few American students were able to report the current interest rate of their credit cards, though most were able to report their current balance. In addition, research in the United Kingdom and New Zealand indicates that students without debt underestimate the length of time that it would take to repay debt with interest, although there is some evidence to suggest that this can be improved with education (Lewis & van Venrooij, 1995; Seaward & Kemp, 2000), suggesting that they might not understand the implications of acquiring debt.

Further, there is some evidence that increased education may have positive effects. In a study in the United States, Compton and Pfau (2004) reported that inoculation to increase resistance to credit solicitations had the desired effect such that students expressed greater concern about getting credit cards. Other research suggests that from whom the message comes may have an impact. Pinto, Parente, and Mansfield (2005) found that only information from parents and not peers, media, and the schools, was related to decreased credit card debt.

1.3. Personality characteristics

Compounding the problem, prior research in England has found that those with more liberal attitudes toward credit use are more likely to be in debt (Livingstone & Lunt, 1992). Furthermore, in another study from the United Kingdom, tolerant attitudes toward debt appear to increase after students become indebted (Davies & Lea, 1995), indicating that there may be a cyclical relationship between debt and pro-debt attitudes related to the accumulation of debt. The importance of attitudes toward credit card use was replicated in the United States by Norvilitis et al. (2006). Related traits that have been identified as predictors of debt in the United Kingdom, New Zealand, and the United States include poor delay of gratification and compulsive spending (Livingstone & Lunt, 1992; Lunt & Livingstone, 1991; Norvilitis et al., 2006; O'Guinn and Faber, 1989; Watson, 2003). On the other hand, in studies in the United States, those with high levels of self-control are more likely to save money and to spend less money (Baumeister, 2002; Romal & Kaplan, 1995) and are less likely to engage in impulsive spending (Strayhorn, 2002).

1.4. Parental influences

Although work has been conducted establishing the importance of parents in children's and adolescents' socialization about money in a variety of countries, including Malta and the United States (e.g. Caruana & Vassallo, 2003; Churchill &