NEFE

Stealth Wealth Project

LITERATURE REVIEW

The objectives of this report are to survey the existing research on the factors influencing emerging adults' financial behaviors and financial decision making and provide suggestions and potential implications for programming that targets specific emerging adult audiences. This report was conducted by University of Minnesota in partnership with America Saves in support of an application to the National Endowment for Financial Education (NEFE). Please note that this survey of the literature provides a preliminary examination of the research on demographic factors, socialization agents, and individual characteristics related to the financial wellness of emerging adults in order to inform the content and structure of experiential learning sessions that explore their financial decision-making processes.

Executive Summary

As adolescents transition into adulthood (age period from 18 to 25/29; Arnett, 2014), they are expected to make many complex life choices (e.g., college, career, marriage). Because many of these choices have financial implications (LeBaron et al., 2018; Robertson & Shoffner, 1989), learning the financial behaviors needed to make good life choices is an important component of achieving adult independence (Bea & Yi, 2019; Mortimer, Kim, Staff, & Vuolo, 2016). Since financial wellness is an important part of independence, individuals who work with and on behalf of emerging adults are tasked with helping them develop knowledge and skills to build healthy financial behaviors that lead to improved financial decision making. However, there is limited information on what contextual factors impact youth's and young adults' financial decision-making process. Therefore, the first objective of this report is to briefly survey the existing research on the factors influencing emerging adults' financial behaviors and financial decision making. Because this information will be helpful for educators and practitioners in designing intervention and prevention programs for emerging adults, the second objective is to offer suggestions and potential implications for programming that targets specific emerging adult audiences.

This report was conducted by University of Minnesota in partnership with America Saves in support of an application to the National Endowment for Financial Education (NEFE). The survey of the literature began with a search conducted with databases that included PsycINFO, Google, Google Scholar, JSTOR, and Academic Search Premier with the year ranges from 2005- 2019. A variety of search terms were used, including: financial well-being and youth outcomes; financial literacy and youth; financial behaviors and

age/gender/race/ethnicity/family; financial literacy and self-efficacy; and financial skills and decision making. These searches involved a review of over 4,500 empirical articles, theoretical papers, research and technical reports, book chapters, and websites that resulted in the identification of nearly 200 sources that were used to inform this report. Please note that this survey of the literature provides a preliminary examination of the research on socialization agents, demographic factors, and individual characteristics and financial wellness of youth and young adults, and is not intended to serve as a comprehensive review of the literature.

Introduction

The extant literature supports that emerging adults who engage in healthy financial behaviors are more likely to report higher levels of financial wellness and life satisfaction later in life (Curran, Parrott, Ahn, Serido, & Shim, 2018; Shim, Xiao, Barber, & Lyons, 2009; Varcoe, Martin, Devitto, & Go, 2005). A recent longitudinal study found evidence that emerging adults who practiced more healthy financial behaviors during college achieved higher levels of adult independence two years after graduation compared to their peers who practiced fewer financial behaviors (Serido, Tang, Ahn, & Shim, 2019). Financial behavior is an important component of achieving adult independence (Bea & Yi, 2019; Mortimer et al., 2016). Once youth reach adulthood, they become more independent and integral into the economy in which they live; as a result, their ability to attain financial wellness becomes increasingly important and has implications on their quality of life.

Financial wellness is an important aspect of individuals' quality of life as it is a reflection of their financial stability and security (Gerrans, Speelman, & Campitelli, 2014). Financial wellness, also referred to as financial well-being (Consumer Financial Protection Bureau, 2015) or financial satisfaction (e.g., Serido, Shim, Mishra, & Tang, 2010; Shim, Barber, Card, Xiao, & Serido, 2010), has been conceptualized as a combination of individuals' material resources (objective) as well as their self-report of their financial condition (subjective; Sorgente & Lanz, 2017). Moreover, financial wellness is achieved when "individuals are satisfied with their financial situations, their objective status is desirable, they have positive financial attitudes, and exhibit healthy financial behavior" (Joo, 2008, p. 23). As this definition suggests, financial wellness is a combination of individuals' attitudes, knowledge, and behaviors. Financial behavior represents the action component of financial wellness (Gudmunson & Danes, 2011) and the developmental processes for building the skills and abilities to enact these behaviors is similar to behavior development of learned behaviors in other life domains required to function as independent adults (Serido, Shim, & Tang, 2013). As expected, there are variations in emerging adults' financial attitudes, knowledge, and behaviors, and these variations are associated with cognitive factors (knowledge, decision-

making), socialization experiences (e.g., family, culture) and individual self-regulation (Tang, Baker, & Peter, 2015). Thus, the following section presents a theoretical model that links these factors to financial-related outcomes.

Theoretical Framework

From a lifespan perspective, financial wellness is accomplished through developmental tasks that equip individuals with knowledge, abilities, and skills that enable them to thrive in their environment (Baltes, 1987). Concurrently, bidirectional relationships are formed between individuals and the multiple social ecological systems within which they interact that contribute to their cognitive, social, and behavioral development across various domains, including financial management (Bronfenbrenner & Morris, 2006; Overton, 2015). The lifespan perspective explains the importance of financial management as an age-related task to be accomplished, while social ecological systems perspective describes how youth obtain financial knowledge and behaviors from continuous interactions with their environment. To demonstrate how multiple theoretical perspectives on financial wellness converge, Serido, Shim, and Tang (2013) proposed a framework to understand the development of financial capabilities. This framework describes financial wellness as a result of gaining knowledge that prompts changes in self-beliefs which improves financial behaviors and outcomes in young adults' lives. This framework also represents the financial decision-making process, from cognitive processing to behavioral responses. Given this, an understanding of the myriad factors that contribute to young adults' financial wellness can help determine their needs as they make financial decisions.

Summary of the Literature

Socialization

Throughout adolescence, youth often rely heavily on their social support network to teach them various rules and expectations to ensure a smooth transition into adulthood (Schoeni & Ross, 2005). Part of youth's general socialization experiences include financial socialization, which is the process by which parents, caregivers, and others teach youth about financial wellness (Shim et al., 2010). Financial socialization is "financial values, attitudes, standards, norms, knowledge, and behaviors that contribute to the financial viability and well-being of the individual" (Danes, 1994, p. 128). Children and youth learn a range of financial attitudes, knowledge, and behaviors through intentional instruction as well as incidental learning, and financial socialization tends to cover areas such as earning, spending, saving, borrowing, and sharing (Danes, 1994). Moreover, financial socialization is the effort to change youth's and young adults' subjective and objective financial knowledge, which is the starting point to developing financial wellness (Serido et al., 2013).

Family Socialization

Research supports the notion that familial financial socialization practices are impactful (e.g., Hudson, Young, Anong, Hudson, & Davis, 2017) and about 47% of young adults reported learning financial information from their parents (Norvilitis & MacLean, 2010). Young adults have reported maintaining values that their parents shared regarding making financial decisions and using explicit strategies to establish financial self-efficacy, such as going to a bank or completing paperwork to request financial aid for college (Rea, Danes, Serido, Borden, & Shim, 2019). Young adults also reported financial identity-processing styles related to the financial socialization of their parents. For example, individuals who actively set their own financial goals reported parents who engaged in positive and frequent communication about finances (Shim, Serido, Bosch, & Tang, 2013) and young adults have described their parents as "role models" regarding management of financial matters (Mahapatra, Alok, & Raveendran, 2016).

Familial factors such as parents' and caregivers' socioeconomic status may also be linked to financial outcomes among youth and young adults (e.g., Murphy, 2005). Adolescents who come from high socioeconomic backgrounds and from parents with higher educational attainment have higher financial literacy than their peers who do not (Lusardi, 2015; Lusardi, Mitchell, & Curto, 2010; Moreno-Herrero, Salas-Velasco, & Sánchez-Campillo, 2018). Further, young adults from high-income families reported more parental influence on their financial literacy than students from low-income families (Jorgensen & Savla, 2010). Notably, young adults who learned information about personal finance from parents scored higher on financial knowledge and financial practice items than those who reported learning about personal finance from other sources (Rea et al., 2019).

Other Sources of Socialization

A survey of the literature suggests youth and young adults cite numerous financial socialization agents, such as peers, financial counselors and educations, work experience, media, and romantic partners. Many research studies have explored the nuances regarding the relationship between different sources of financial socialization and outcomes among young adults. Among college students, romantic partner financial socialization was positively associated with outcomes related to well-being, life satisfaction, relationship satisfaction, and relationship commitment (Curran et al., 2018). Financial information from friends was positively associated with financial practices among youth (Mimura, Koonce, Plunkett, & Pleskus, 2015). Youth who chose media as their primary financial socialization agent as opposed to family performed better on measures of financial literacy (Sohn, Joo, Grable, Lee, & Kim, 2012). Moreover, among youth and young adults, financial socialization in school was negatively associated with impulsive buying, while parental financial socialization was not related (Kim & Kim, 2016). Young adults reported that the Internet is the most

frequently used source of financial information (O'Neill & Johnson, 2018). Taken altogether, youth and young adults obtain financial socialization messages from various sources, which comprise part of the knowledge youth use when making financial decisions that ultimately increase their financial capability. As previously mentioned, this knowledge is part of the cognitive process that impacts their self-esteem and self-efficacy, both of which are influenced by demographic and individual contexts.

Youth Demographic Factors

Numerous demographic factors (e.g., gender, age, race, ethnicity, etc.) appear to influence young adults' financial wellness (e.g., Worthy, Jonkman, & Blinn-Pike, 2010). Although an exhaustive list of these factors is beyond the scope of this review, common demographic factors, such as gender and age, which are linked to financial wellness among young adults, will be highlighted in this section.

Gender

Financial literacy and knowledge have frequently been found to vary by gender, with males generally having higher scores on knowledge or literacy than females (e.g., Mahapatra et al., 2016) or males being in more stable financial circumstances than females (e.g., Sinha, Tan, & Zhan, 2018). However, there are nuances to these findings in that there appear to be certain knowledge areas and behaviors where females may exhibit higher scores or healthier behaviors. For example, male youth were found to spend and save significantly more money than female youth, but they also have significantly more debt than their female counterparts (Danes & Haberman, 2007). In support of some of the gender differences, there is evidence that parents tend to provide financial socialization messages to male children at a younger age than female children (e.g., Agnew & Cameron-Agnew, 2015), which may contribute to some findings of higher levels of financial literacy among males than females. However, when young adults reported on parental financial socialization messages, there was evidence to suggest parents' influence on financial behaviors was stronger among female than male young adults (Tang et al., 2015), which adds to these nuances regarding gender differences.

Age

As might be expected, there are trends that suggest that aspects of financial wellness are linked to age (e.g., Skagerlund, Lind, Strömbäck, Tinghög, & Västfjäll, 2018). Among a sample of adults 18 years old and older, financial literacy was highest among 35-44-year-olds and lowest among 18-24-year-olds (Nicolini, Cude, & Chatterjee, 2013). Furthermore, among a sample of young adults, those who were between 22-25 years and 25-28 years had significantly more financial literacy than the younger group who were between 18-22 years (Mahapatra et al., 2016).

Race, Ethnicity, and Immigration Status

The literature has yielded mixed findings regarding the relationships between race, ethnicity, and immigration status. For example, racial and ethnic background has been correlated with youth's financial behaviors (e.g., spending more money than has been earned, keeping track of household expenses) and financial stress such that being African American was correlated with poorer financial behaviors and more financial stress than their peers who identified as White (Grable & Joo, 2006). Latino and Native American youth tended to be less confident in making financial decisions than their White counterparts, but African American students are more confident than White students. Youth who were not White were more likely to access money through parents only rather than through earned income (Deenanath, Danes, & Jang, 2019). However, youth who were not White have reported obtaining more information from educators and from the media than White youth (Koonce, Mimura, Mauldin, Rupured, & Jordan, 2008). Furthermore, adolescents who were first generation (born outside of their current country of residence) scored significantly lower on tests of financial literacy than adolescents who were born in their country of residence (Gramaţki, 2017). While some research has found links between racial and ethnic background or immigrant status and financial outcomes such as financial knowledge (e.g., Moreno-Herrero et al., 2018), other research has not found support for these links (e.g., Mimura et al., 2015).

Location (Neighborhood and Type of Community)

There are mixed findings concerning the links between neighborhood, type of community and financial wellness. Among a national sample, Lachance (2014) found significant associations between the education level and access to financial products in participants' neighborhood, long-term planning and risk management, and shot-term cash/credit management. Other researchers found that financial literacy had a positive relationship with education levels by zip codes (Al-Bahrani, Weathers, & Patel, 2019). However, no significant differences were found in a test of financial literacy between urban (mean score of 51%) and rural (mean score of 50%) high school students (Valentine & Khayum, 2005).

Education Level

Overall, educational attainment has been positively associated with financial literacy, for those who graduated from high school and for those with a college degree (Lusardi et al., 2010). Among youth, higher grade point averages were associated with higher levels of economic self-efficacy (Lee & Mortimer, 2009), and among young adults, those who had a bachelor's degree or higher were more likely to be financially stable than those with less formal education (Sinha et al., 2018).

Intersection of Demographic Factors

Generally, research suggests that those who are employed, White, and/or male exhibit more positive financial behaviors (e.g., having a bank account) than those who are not (e.g., Sinha et al., 2018). Also, there is evidence to suggest those who are single, less formally educated, and have lower income report more problematic financial behaviors than individuals who were coupled, have more education, and higher income (e.g., Bruin, Vanderklaauw, Downs, Topa, & Armantier, 2010). Therefore, membership in more than one demographic group might increase or decrease individuals' risk of negative financial-related behaviors and outcomes. Furthermore, individual characteristics, such as self-efficacy and motivation, might also influence individuals' risks of these behaviors and outcomes.

Individual Characteristics

Financial behaviors may be related to individuals' beliefs of their qualities, personality characteristics, and capabilities. For example, self-reports of patience have been found to be positively correlated with financial literacy among high school students (Brown, Henchoz, & Spycher, 2018). Furthermore, youth who were confident in making financial decisions demonstrated greater number of healthy financial behaviors (Deenanath et al., 2019), and youth have reported higher levels of confidence in performing financial responsibilities when their parents taught them how to perform financial tasks (Clarke, Heaton, Israelsen, & Eggett, 2005).

Self-regulation

Self-regulation and executive functioning have been linked to financial wellness (Drever et al., 2015). Self-regulation is negatively associated with financial behaviors such as impulsive buying (e.g., Pradipto, Winata, Murti, & Azizah, 2016), while self-discipline has been found to be positively associated with healthy financial behaviors (e.g., Tang et al., 2015). Moreover, young adults who demonstrated higher level of self-control skills during adolescence have better debt management (Tang, 2017). Greater internal locus of control was positively associated with healthy financial behaviors (e.g., Jorgensen, Rappleyea, Schweichler, Fang, & Moran, 2017), while youth's self-regulation has been found to mediate the relationship between their family's socioeconomic status and outcomes (academic performance and substance use; Farley & Kim-Spoon, 2017).

Self-efficacy

Generalized self-efficacy has been positively correlated with patience, cognitive abilities, the ability to manage financial distress, and feelings of financial preparedness (Kuhnen & Melzer, 2018). Moreover, financial self-efficacy, individuals' beliefs that they can attain their financial goals (Forbes & Kara, 2010), has been positively linked to making riskier financial decisions. For example, a particular type of financial self-efficacy, credit card self-efficacy, was found to mediate the relationship between credit card knowledge and credit card misuse (Limbu,

2017). Furthermore, in general, higher economic self-efficacy has been linked to more financial independence (Xiao, Chatterjee, & Kim, 2014).

Applications to the Next Phase of Study

Based on information gained from a survey of the literature, the financial decision-making process involves financial knowledge triggering changes in financial self-beliefs that influences financial behaviors. Overtime, this continued process either promotes or hinders financial wellness. Since socialization agents, demographic factors, and individual characteristics are directly and indirectly linked to each stage of the decision-making process (financial knowledge, financial self-beliefs, and financial behaviors), the following next steps are offered:

1. **Assess who or what are the most salient socialization agents in youth's and young adults' lives concerning their financial knowledge, self-beliefs, and behaviors.**
   Research suggests parents and caregivers play a vital role in the financial socialization process, but other agents, such as peers and media, also impact emerging adults' financial decisions. More data on the primary sources of socialization can lead to better understanding of the information youth might receive in order to determine how to supplement gaps in knowledge with interventions.
2. **Explore group differences among demographic factors to determine if these differences impact financial decision-making processes and outcomes.**
   There is research that demonstrates gender, racial, ethnic, and age differences among financial knowledge and behaviors; however, more information is needed about the differences regarding financial decision-making across different demographic groups. Therefore, experiential learning sessions are well-suited to create groups by certain demographic factors and/or activities that highlight common experiences among different groups to solicit information on what are the main issues that impact financial decision making within a given group.
3. **Examine differences in financial self-efficacy across different demographic groups of youth and young adults by evaluating the extent to which various individual characteristics, including financial self-efficacy, impact financial decision-making skills.**
   Theoretically, self-beliefs about financial capability may be an important intermediary between financial knowledge and financial behaviors. Thus, it is vital to explore how self-beliefs and other individual characteristics, such as financial self-efficacy or self-

regulation, differ across demographic groups and any implications these characteristics have on youth's and young adults' financial decisions.

Conclusions

Financial knowledge gained from socialization agents as well as the self-beliefs related to financial knowledge, literacy, and/or behaviors develop as youth emerge into adulthood. Moreover, financial knowledge and beliefs lead youth and young adults to either healthy or unhealthy financial behaviors. These behaviors are a culmination of a financial decision-making process where young adults may undergo several iterations before selecting a course of action. Further, because these financial decisions become the building blocks of their financial wellness, emerging adulthood is an important time to explore how financial decisions are made and target efforts to improve individuals' financial wellness.

Suggested Citation

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