Financial Independence in Early Adulthood

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Abstract

Background: Financial stability and success all start with financial independence. By achieving such independence in one's early adult years, the opportunities for financial success are easier to reach.

Objective: The aim of this research is to address how financial independence may be achieved by early adults looking to do so.

Design and Method: This research paper is based on recently published qualitative research. The research spans from the discussion of economic upbringing, common associated factors, and advice on achieving independence financially. By carefully analyzing the research, results were drawn to support the objective of the study. The research question is; *how does a young adult achieve financial independence?*

Results: The significance of this research is to provide common factors related to achieving financial independence as well as pointing out voluntary tasks one may take in order to do so.

Conclusions: Financial independence has various different variables and factors weighing into the likelihood of its achievability. Financial independence is most impacted by economic role-modeling, creation of good credit, and avoidance of unnecessary or frivolous spending.

Key Words: financial independence, emerging adulthood, financial success, financial stability

Chapter 1

Introduction

Achieving financial success is something that most people strive towards. My question is, *how does one achieve this type of success?* That question is so broad and holds a plethora of answers, but there is one answer that remains true no matter where or what your future entails. To achieve financial success, you must first reach financial independence. Financial independence can be defined as when a person has enough income to pay their living expenses comfortably and does not rely on others to provide for them.

The purpose of this qualitative research is to provide young adults with strategies and the basic knowledge that is needed in order to reach financial independence. As illustrated in the literature review, there are different factors that lead to a likely chance of achieving financial independence in one's early adult life, as well as helpful skills someone may acquire to achieve such.

The theory that supports this research is Bronfenbrenner's (1974) ecological system theory. This theory is a child development theory but can be connected to emerging adults as well. The theory discusses how someone is not just impacted by their immediate environment but by the larger environment and more significant factors as well. The theory discusses the importance of looking at factors and influences ranging from very closely related to broad. An example of this would be factors very closely related being someone's family life, and a broad factor may be the economic environment of where that person lives. As discussed throughout this research on financial independence, it has been shown how one's financial status is impacted not just by their upbringing and immediate environment but also by skills learned, the economic environment, and other factors. A factor that would be very closely correlated to one's financial independence would be the parental modeling they have received. A broader factor would be the job market.

The scope of this research is to examine different facets of financial independence in early adulthood and to look for patterns that can help the audience to come up with their plan to reach financial independence. The primary and foremost objective of this research is to provide young adults with the information to achieve financial independence themselves and know the importance of this for their present and future life. The motivation for this research is to help provide not just me but others in my age group with the important knowledge needed to reach a goal of financial independence. The research design I am using is a qualitative literature review. The research design was chosen as it clearly outlines and articulates each point of my topic while making it comprehensive to the audience.

The significance of this topic is that this period in one's life is foundational for their future success. This study and paper are essential to a young adult as the research highlights not only why financial independence is as foundational as it is at this age, but it also illustrates skills and factors that come hand-in-hand with financial independence in order for the audience to use this knowledge to apply to their own lives. As time progresses, this idea of financial freedom and independence continues to be tied to one another. This research develops the concept of how independence at an early adult age, financially, can be connected directly to financial freedom and, therefore, success in years to come.

Chapter 2

Literature Review

To reach financial success, one must first become financially independent. To research how one goes about becoming financially successful, we must examine how to go about achieving financial independence. The question that will be guiding me through my research is *How does a young adult achieve financial independence*? Financial independence can be defined as when a person has enough income to comfortably pay their living expenses and does not rely on others to provide for them.

This qualitative research aims to provide young adults with strategies and the basic knowledge that is needed to reach financial independence. As illustrated in the literature review, there are different factors that lead to a likely chance of achieving financial independence in one's early adult life and useful skills someone may acquire to achieve such.

There are some common characteristics that follow up to the factors of financial independence in early adults. The sources relied upon all elaborate on similarities between young adults who have reached financial independence.

In the scientific journal, *Budget, Motives and Strategies,* (Diachkova et al.,2020) the authors discuss the relationship between being an undergraduate student while also working to provide for oneself. The journal was published in December 2020, so it includes updated data as well as taking the pandemic's impact on finances into account. The results of this study aim to look at all factors influencing the financial standing of undergraduate students and look at their motives for achieving financial independence.

There are set strategies discussed by Diachkova et al. (2020) through the journal that aid in identifying the key motives to a young person aiming to achieve financial independence. The authors divide the motives into the two main categories found, the desire to achieve financial independence due to inability to live dependent on anyone else, or because they desire to be on their own hence work towards becoming independent financially. This reading and data analysis helped to illustrate how and why people in this age group make a goal to reach financial independence.

In the study by Sironi, Maria, and Frank F. Furstenberg (2007) *Trends in the Economic Independence of Young Adults in the United States*-, the authors discuss the transition into early adulthood and how this has changed over the past decades. Factors associated with financial independence as well as overall independence are mentioned throughout the study. The main factors Sironi et al. examined are positive financial role-modeling, labor market opportunities (good jobs), as well as the neighborhood/environment. Sironi et al. also studied the parents being able to make economic investments for the children's future. The majority of these factors connect directly to the financial foundation the parents experienced while growing up. This study shows that the more financial stability one grows up around, the more likely they will achieve financial independence and, therefore, achieve financial success earlier in life than those who did not grow up in a financially stable environment.

In the article, *Social Role Patterning in Early Adulthood in the USA: Adolescent Predictors and Concurrent Wellbeing across Four Distinct Configurations (*Magges et al., 2012) the authors speak in detail about the patterns and trends of early adults in their mid-twenties in the United States. The social and economic factors surrounding different groups of early adults are mentioned as well. Authors use four configurations to identify different social roles of early adults in their mid-twenties. The main focus of the social domains was education, residential life, relationship status, and parenthood. When discussing parenting and education, Magges et al. (2012) bring up how both domains can be tied directly to financial independence depending on how the financial environment can impact that child's financial stability as an adult.

In the passage *Factors Associated with Financial Independence of Young Adults* (Xiao, 2014), the authors discuss the transition of early adults from living at home with parents to living by themselves and being financially independent and how the home life correlates to their financial stability. This study looks to find factors of people age 18-23 in the U.S. who are financially independent. A positive aspect of the results is that the economic factors related to financial independence correlate to how economically stable and successful the parents are as their children grow up. Young adults have financial role models, which help them be more financially independent.

As discussed in the article, *Social Role Patterning in Early Adulthood in the USA*, (Maggs et al., 2012), one's employment status directly ties to their financial stability, independence, and success. Maggs et al. (2012) elaborate on this concept by mentioning how all early adults who have financial independence have a stable income, whether from a secure job, multiple "side gigs," or an allowance; these adults all receive money in order to support themselves.

The literature written by Sironi et al. (2007), refers to the vital factor of a stable income. According to the study, economic opportunities have changed a lot over the past decade and make it more difficult in many ways for one to become financially stable. Since financial stability is taking longer to achieve, young adults are waiting to get married and start a family in order to be financially independent before they can do so. The wait will give them time to become financially independent, and desire results in young adults focusing on a successful career, which leads to a stable income.

Bea and Yi (2019) discuss in *Leaving the Financial Nest: Connecting Young Adults' Financial Independence to Financial Security* the variations that early adults have in regards to transitioning to being financially independent. Bea and Yi (2019). Frequently state that financial security is a considerable factor in how an individual transition to independence. The authors mention how to be financially secure; one must have secured employment. This secure employment will assure the person that they have the means to fund their lifestyle independently. The results from the study characterize financial independence into four categories. The overall findings show that the timing of financial independence in the transition to adulthood correlates to early adult financial well-being.

In the article, *8 Ways to Set Yourself Up for Financial Freedom in Your 20s*, Isaacs (2020) provides tips and guidance when looking to achieve financial independence. These tips aim to help achieve financial independence and success geared towards people in their 20's. It is also important to mention that these terms and tips have been proven to be common factors for young adults' financial independence. The main recommendations Isaacs noted are as follows; 1) understand compound interest and valuation, 2) generate passive income, 3) avoid bad debt, 4) make friends with good debt, 5) save to invest, 6) only borrow what you need, 7)avoid conspicuous consumption, and lastly 8) be patient.

Dawn (2019), the founder of Stepping Stones to Financial Independence, wrote an article about *Why Financial Independence Is Important and How to Achieve It.* The article focuses on the importance of financial independence in your early adult life and how it is foundational for financial success in your whole life. The author discusses how the term 'financial independence' can have different meanings to different people and how it can be achieved using the same or similar skills. The main skills mentioned are savings and how vital savings are, the importance of understanding savings rates, and how to calculate and increase your rate of savings. The author says the most crucial tip in her eyes for achieving financial independence is to increase your savings rate, and then they break that up into two parts. The first part is to lower your monthly expenses, and the second part is to increase your income.

Financial independence has a significant impact on an early adult's probability of achieving financial success; having a solid and secure financial foundation of independence links directly to financial success in mid-later adult years. As mentioned before, savings play a considerable role in the economic stability of young adults. With those savings, there is a provided stability that can help ensure a lifetime of financial freedom and success.

In the passage, *What's Going on with Young People Today (Setterson et. al, 2010)* the discussion is focused on the pathway to adulthood from being considered a dependent to an independent. The challenges that young adults are transitioning into adulthood face along the way to such independence are what the authors shed light on in this article. These challenges have impacted their ability to achieve such independence. Through this article, the author's study changes from the past decades and how the financial circumstances have changed for transitioning adults over the years.

The authors are focused on the young adults who are beginning a transition to independence of all sorts, not just financial. This group is looked at over the past decades, which illustrates the significance of independence at this age as well as aids to detail the similarities in the groups and the differences as time goes on. As noted in the passage, the transition from youth/dependence to adulthood/independence has emerged to gain complications as time progresses. The obstacles taken note of here are significant to the study on how to achieve financial independence.

This passage, *Young Adults Navigate Rocky Road to Financial Independence ,* (Lehrman, 2019) looks in-depth into the factors that young adults have when looking at financial independence and transitioning to adulthood. The concept of social pressure is mentioned here and is critical to highlight as it holds substantial importance in impacting how a young adult may view financial independence.

The data and information provided by Lehrman (2019), this passage expands upon how social pressures play a role in achieving independence as a young adult. The mentioning of social pressure to make a lot of money, making fast money, and spending their money is unique to this passage, as the other research sources do not dive into such topics. The authors highlight how important it is to take notice of how social pressures like these impacts the transition from being dependent to independent and how such pressures can result in certain financial actions. I will also be relying upon the knowledge I gained from this reading on the stressors that young adults face while transitioning into financial independence.

Conclusion

Referring back to my initial research question of *How does a young adult achieve financial independence*? as illustrated through this study, an individual can take note of the factors and influences certain things have on attaining financial independence during emerging adulthood. Financial independence is something that everyone strives to achieve. Although this is a multi-faceted term, when applying it to someone in their early adult years, it is often seen as complex and overlooked as less important than it is. Between the factors researched, the skills noted, and the benefits mentioned, the possibility of an early adult achieving financial independence is very much a reachable task. As the literature demonstrates, financial independence in the young adult years is foundational for one's financial and overall success.

Chapter 3

Methods

The general aim of my study is to inform young adults, age 18-30, on how to become financially independent and why it is so important to do so. I explored numerous sources that discussed many different facets of financial independence as a whole, as well as how it plays a vital role in the lives of early adults. The main topics I studied were the common factors, the audience, financial strategies/tips, the importance of this type of independence, and how it leads to financial success. This research aims to provide young adults with strategies and the basic knowledge that is needed to reach financial independence.

My research question is;

> **RQ:** *How can self-efficacy and financial independence be acquired and attained in early adulthood?*

I used qualitative research for this study as it is a much more effective type of research when discussing this topic. I sought to understand and develop more knowledge on this topic by looking at different perspectives, opinions, statistics, and factors. All of this fall into qualitative research as it is geared towards more opinion and perspective-based research. The specific strategy I used was a systematic literature review, as it would provide a clear and detailed description of my findings as well as sum up the important keynotes for the research to better answer the research question. A literature search was also the most appropriate strategy as not only will it be the best way to answer my research question but also, due to time and length limitations, it is the most concise and constructive way to address my subject.

I was able to collect the data through peer-reviewed journals and reputable sources to be able to check off every facet of the overall topic. I then used themes and subtopics in my literature review to better organize the data. Breaking up each of the different parts of the topic made it, so the data is much more organized and easier to conceptualize. The research studied has proven the overall importance of the topic and provided the answer to the main research question.

The potential research bias I have as the researcher is that I am an early adult who is currently working towards achieving financial independence as one of my main goals in my five-year plan. This bias makes my thoughts on the importance and the benefits to be a bit stronger than someone who is my age and is not working towards that.

There are a few limitations to this research project that impact the matter of the literature review. Due to time constraints, as well as having other courses, I was not able to venture into using more than 8-10 sources as it would be too timely to do so and would risk the potential efforts I would put in work for other courses. Another limitation is the use of mainly peer-reviewed journals. Because my topic has to do with finance but is narrow in the actual audience and financial field discussed, it is hard to find peer-reviewed journals that accurately hits the nail on the head. There are dozens of articles online that discuss tips for young adults who look to achieve financial independence. Still, those articles are not peer-reviewed, so my use of them is limited therefore causing the source selection to be limited. The last limitation on my research was the length limitation; I was not able to exceed a certain number of pages, so due to that, the research must have been written in a concise and straight-to-the-point manner.

Chapter 4

Results

The topic of my research is financial independence in emerging adulthood. This topic discusses how early adults, those aged from around 18 years old to 30 years old, go about achieving financial independence and stability. I have looked to mainly qualitative studies in order to produce an efficient and clear research paper. The reason for this research is to identify factors that can be related to across the board when it comes to this topic. By investigating factors as well as well-backed support on how to achieve this, I will be able to better inform those like myself who are interested in becoming financially independent. I analyzed my data by searching for the studies that would answer my research question. This results chapter will discuss the results of my methodology section that adhere to answer the following research question; *how self-efficacy and financial independence may be acquired and attained in early adulthood?*

The studies presented in the literature review have presented the idea that one big factor in financial independence is the idea of financial role modeling. This term refers to how one was brought up to think about and rely upon money. The idea is that when people are brought up with positive financial role modeling that highlights the importance of saving over spending, having, and keeping good credit, and other characteristics that lead to good financial practices. The financial environment a child is raised in has been shown to have a direct correlation to the relationship they have with money as they become adults. It has been studied that while commonly the parenting practices regarding finances are that of what the children adapt, there are situations where this is not the case. For those who were raised in a chaotic and negative financial role-modeling household, many times those children end up learning from their parent's mistakes in order to have a positive financial status.

Throughout my research, there were points made onto tips to achieve financial independence and stability. Two of the tips that were mentioned more than once in multiple articles were the ability to create good credit not bad and to avoid unnecessary spending. These two things may sound like basic ideas, but when diving deeper into what they truly are, it is clear that many people either do not know how to actively do them or just do not. When discussing debt, almost every source I looked at discusses the difference between good and bad credit. To recap those findings, bad credit would be when someone spends more than they make, resulting in debt. This debt will negatively impact your credit as it shows you are not financially responsible when it comes to paying back your loans. Good credit comes from actively paying off what you owe, and doing so on time. When you do this, your credit score increases which look good to prospective lenders. Credit is something that many people are taught to fear, but in reality, we all need credit to achieve what we desire. As discussed in the findings, credit is used for everything from lenders checking you before giving you a loan, to renting an apartment.

Avoiding unnecessary spending is a basic concept that is commonly mentioned when in the conversation of financial stability and independence. Unnecessary spending can range from eating takeout to buying the new version of a purse. Throughout my research, almost every source mentioned unnecessary spending when explaining the things that could be negatively impacted one's ability to be financially independent. One source discusses avoiding unnecessary spending by creating what is called a budget, which outlines what your money will be spent on. Sticking to a budget is something that is mentioned in another source as a tip to those who are aiming to achieve financial success, as besides reducing the amount of unnecessary spending, budgeting also allows a specific amount of your income to go towards savings.

The counterargument to financial independence in emerging adulthood would be that by staying at home with your parents during your early adult years, you have the ability to save money as you most likely do not have to pay for all of your own expenses. This does hold some truth, as you most likely won't be spending as much when living at home as you will be living on your own. However, as proven by my research, these early years are foundational to one's financial stability and life. The habits created financially as a young adult translate clearly to the financial stability and success one has in later years. So while one may save money to live at home as long as they can, they actually are creating financially dependent habits which can result in a lack of financial success later down the line.

Referring back to my initial research question that is mentioned above, the research I have done has given me the information needed to answer that question. I have gained knowledge of how to actively try to achieve financial independence. I also have been able to point out what may cause people to be or feel unable to achieve it. Throughout my research, I have also acquired the information needed to create clear factors that lead to financial independence as well as the factors that make it harder to achieve.

Chapter 5

Discussion

After concluding the results from the research, I have the ability to analyze the results and factors to discuss their importance. The main elements to be discussed are the factors and advice on how financial independence may be achieved in the early years of one's adult life.

One of the key findings from the research is that of common factors linked to financial independence. The role that financial role modeling has to play as a factor in achieving this independence has been proven to be rather big. What this means is that the financial environment someone is raised in has a direct correlation to that person's fiscal status as an adult. This is very important to the research as it shows that although many things are in our control to become financially independent, upbringing has played a role and is not something that can be changed. However, if someone has grown up in a negative financial situation, there is also a chance for them to learn from the misdoings of their financial role models.

Throughout my research, it was clear that to reach financial stability and independence, there are steps that can be taken to get closer to one's goal. A key point made in terms of that advice was creating good credit and stay clear of bad credit. Bad credit would be when someone spends more than they make, resulting in debt, which will negatively impact your credit as it shows you are not financially responsible when it comes to paying back your loans. Good credit comes from actively paying off what you owe, and doing so on time which increases your credit score, which is appealing to prospective lenders. As discussed in the findings, credit is a very misunderstood topic, especially for younger adults. But credit is used for everything from lenders checking you before giving you a loan, to renting an apartment, so it is vital to have.

Another main finding is the importance of avoiding unnecessary spending when looking to achieve financial independence. As mentioned throughout the results, unnecessary spending can range from splurging on takeout food to impulsive retail purchases. This idea of avoiding unnecessary spending is mentioned throughout almost every source I researched, which drives home its importance. Sticking to a budget is something that is mentioned in one source as a tip to those who are aiming to achieve financial success, as besides reducing the amount of unnecessary spending, budgeting also allows a specific amount of your income to go towards savings.

While this study was relatively unlimited, there were a few limitations worth considering. One of which is the time limitation. This research was conducted over the course of the past 2 semesters, of which the classes were spaced out. This impacted the ability to fully research every possible factor related to financial independence. Another limitation was the primary use of peer-reviewed articles for this specific research. Considering its financial context, there are many sources that are not as reputable academically but share valid information from the author's own experience with the topic. Those of which could not be included as this is an academic piece of writing.

In lieu of future research for this topic, I would add some suggestions to continue on. One suggestion would be to include those non-peer-reviewed pieces of literature, after looking through them carefully. This is because those pieces often include very valuable information from people who received hands-on experience of achieving financial independence as a young adult. Another suggestion I would add would be to include more on how to learn from financial misdoings or mistakes that one may have been subject to.

To conclude this discussion, it is worth taking note that there are many different factors that come into play while discussing financial independence in emerging adulthood. Of which, financial role-modeling, creating good credit, and avoiding unnecessary spending are the main takeaways from the results.

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