The Relationship Between Family Socialization and Financial Behaviors in College Students

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Abstract

This pilot study examined the relationship between family financial skills and behaviors and the financial behaviors and skills of college students. The goal of this study was to see if findings from Gudmunson and Danes (2011) who developed family financial socialization theory, would be replicated among SUNY New Paltz college students. Fifty-nine college students were surveyed using items from Jorgenson and Salva's (2007) College Student Financial Literacy Survey (CSFLS). A correlational study was conducted; results suggested a positive, weak relationship; as family financial skills increased, financial skills increased. Overall results were not statistically significant; family financial interactions were not associated with the financial behaviors of college students. While no associations were identified at the variable level, at the item level, several associations were identified in the expected direction. Self-reported ability to manage one's own finances was associated with learning about and observing financial management from parents/guardians. Self-reported ability to manage one's own finances was associated with observing parents/guardians save money. Furthermore, among the 37 students who reported having one or more credit cards, family saving was negatively associated with owing money on one's own credit cards. This research suggests the importance of family communication about financial skills and behaviors to encourage better financial behaviors in young adults.

Keywords: psychology, family socialization, financial socialization, financial behaviors, credit card usage, credit card debt

The Impact of Family Socialization on Financial Behaviors in College Students

In this day and age with rising living costs, increasing tuition, and exponentially high rates of student loan debt, positive financial behaviors in young college students are particularly important. There are several factors that can influence financial behaviors in young adults from gender to stress levels to physical and mental well-being. However, less research has been done on the influence of family on financial behaviors in young adults. Parents are primary agents of socialization, and probably the most important influence on children. Their influence continues to be important throughout adolescence and adulthood (Gecas, 2001). It is hypothesized that college-aged students who discussed finances with their guardians and witnessed them engaging in positive financial behaviors growing up will exhibit more positive financial skills of their own.

Literature Review

Positive financial behaviors and overall financial literacy are very important skills to have as an emerging adult. With the threat of social security running out and rising costs, young people need to think about finances early and regularly. Often, young adults are perceived as financially reckless and irresponsible. College students in particular are of interest when discussing financial well-being and behaviors because college is a very important transitional period especially for financial behaviors. For many college students away from home, it is the first time in their lives where they have to manage their own money and pay their own bills (Shim et al., 2010). College students typically tend to accumulate a significant amount of debt early on which can lead to an inability to continuing paying for college (Jorgensen & Salva, 2010). In 2009, statistics from Sallie Mae revealed that about 84% of American college students had at least one credit card, a number which had increased from 76% in just five years, with an average of credit card debt totaling $3,173 (Norvilitis & MacLean, 2010). With credit card debt

comes consequences, some of which include a decreased sense of financial well-being and higher overall levels of stress in young adults (Norvilitis & MacLean, 2010). College students are a high-risk group for debt accumulation and negative financial behaviors that will impact their well-being later in life. Extensive research has been done on factors that may influence financial behaviors and attitudes in college students. One such important factor that has been investigated is family socialization.

Parental influence appears to extend to financial behaviors. The current thesis project involves aspects of Albert Bandura's social learning theory. The theory, as applied to financial literacy, states that "the interactions within a given environment determine children's knowledge and attitudes about money" (Hancock, Jorgenson, & Swanson, 2012, p. 370). This theory will help emphasize the importance of family socialization in a more indirect way—children do as they see. In addition, Gudmunson and Danes (2011) defined financial socialization theory as the way in which families interact influence financial attitudes, knowledge, and development whether it be implicit or explicit.

It is important to understand some key differences between different financial learning concepts. First off it is important to define what a "family" is; in 2007 Liable and Thompson defined a family relationship as "an integrated network of enduring emotional ties, mental representations, and behaviors that connect one person to another over time and across space" (cited in Gudmunson & Danes, 2011, p. 646). This definition is very fitting for this type of research about family financial socialization because it is very inclusive and accounts for different types of familial situations that people might grow up in. Another important concept is financial socialization, which Danes defined in 1994 as "the process of acquiring and developing values, attitudes, standards, norms, knowledge, and behaviors that contribute to the financial

viability and individual well-being" (cited in Jorgensen & Salva, 2010, p. 467). Financial literacy is one's ability to make financial judgements and decisions in a "complex financial world;" however, this concept has become more outdated and has been replaced with the idea of "financial capability." Financial capability is a more comprehensive term when discussing financial behaviors and attitudes, that takes into account how social factors among other things influence one's financial abilities (Gudmunson & Danes, 2011). Finally, financial behavior is defined as "a pattern of action over time such as earning, saving, spending, and gifting" (Gudmunson & Danes, 2011, p. 650). These concepts will be important for better understanding the research, and the outcomes of family financial socialization.

Family financial socialization is an important concept, and the ways in which parents influence their children's financial behaviors and attitudes vary by interactions. Implicit versus explicit financial learning interactions make a difference in young adults' own financial behaviors. Jorgensen and Salva (2010) define implicit learning as nonspecific, indirect interactions which tend to be more prevalent; an example is modeling. Modeling was mentioned above as part of social learning theory. Children might just model their parent's financial behaviors without any sort of instruction. Additionally, implicit learning can take the form of children just passively witnessing their own parents' spending, discussions, and savings, which can influence their later financial attitudes (Jorgensen & Salva, 2010). Explicit learning involves direct interactions between parent/guardian and child. Explicit learning involves things like a parent discussing finances with their children, giving them allowances, and teaching them to budget (Gudmunson & Danes, 2011). An extension of explicit learning involves purposive financial socialization where family members are actively and intentionally trying to financially socialize each other to produce positive outcomes (Rea et al., 2019). Different types of

interactions will influence young adults' financial behaviors in different ways, and some will be more effective than others in producing positive financial behaviors in college students.

Family financial socialization has been a very important circumstance in college students' financial behaviors. Several studies have found that familial interactions have had a significant impact on a number of financial factors in college students' lives. In 2007, Xiao found that students whose parents gave them more advice and approval were more likely to have positive cash management skills (cited in Worthy, Jonkman, & Blinn-Pike, 2010, p. 163). Norvilitis and MacLean (2010) found that lack of verbal communication between parents and children regarding finances was linked to great debt over time. Hancock, Jorgenson, and Swanson (2012) found that students who witnessed their parents argue over finances often during their childhood were at a higher risk for accumulating credit card debt and having multiple credit cards. On the other hand, in 2005, Pinto et al. found that when college students received more information about credit cards from parents, (as opposed to from peers, media, or school), they had lower credit card balances (as cited in Gudmunson & Danes, 2011, p. 650). Credit card use is important when looking at financial behaviors in college students because it is the first example of the beginnings of their own financial behaviors and spending which is to some extent influenced by learning from their parents.

Jorgensen and Salva's (2010) study had some important findings in relation to outcomes of family financial socialization. They found that students perceived parents as having a direct, moderately significant influence on outcomes like financial attitude, but not necessarily their financial knowledge or behaviors. They also found a nonsignificant relationship between students' belief that parents influenced their financial knowledge, which supported the notion that parents are not really teaching their kids financial knowledge.

As discussed above explicit versus implicit learning can have varying degrees of effectiveness when it comes to financial behaviors. Explicit learning has been related to more effective financial outcomes in family financial socialization. Norvilitis and MacLean (2010) found that college students whose parents engaged in a more explicit, hands-on approach to financial teaching with them, reported lower levels of credit card debt in college, less impulsive buying using credit cards, and overall higher levels of financial well-being.

Rea, Danes, Serido, Borden, and Shim (2019) conducted a study that built on family financial socialization theory. They looked at the effectiveness of purposive financial socialization and college students' own definitions and understandings of financial well-being. They found that students who experienced purposive financial socialization felt a sense of self-efficacy, independence, and felt self-sufficient when it came to managing their own finances. In addition, they had a strong motivation to save money, and hoped to be financially independent of their parents in the future. In terms of how participants defined financial well-being, they saw it as involving balance, stability, freedom to live independently from parents financially, and not feeling restricted by their own finances. This study is significant because it took into account family financial socialization and its effectiveness, but it also asked for college students' own perceptions of how that socialization impacted them. The current research study intended to evaluate whether or not family financial socialization theory would be supported amongst the SUNY New Paltz college student population.

Method

Participants

Fifty-nine college students participated and completed the survey. Out of the participants 10.2% ($n = 6$) identified as male, 84.7% ($n = 50$) identified as female, and 5.1% ($n = 3$)

identified as other. The age of participants ranged between 18 and 28, with a mean age of 20.17, (*SD* = 1.830). In terms of year in school, 13.6% (*n* = 8) were freshmen, 27.1% (*n* = 16) were sophomores, 28.8% (*n* = 17) were juniors, and 30.5% (*n* = 18) were seniors. Participants also reported the number of credit cards they owned. Twenty-two (37.3%) students reported having no credit cards, 29 (49.2%) reported having at least one credit card, and 8 (13.6%) reported having two or more credit cards. Additionally, participants reported the number of adults present in their household growing up. Eight (13.6%) students reported having one adult present, 45 (76.3%) reported having two, and six (10.2%) reported having three or more. Interestingly, fewer participants reported have one or more credit cards than was found in the literature (Norvilitis & MacLean, 2010).

Materials

For this study, participants completed the survey electronically on Qualtrics. In order to measure financial literacy, five items were selected from Jorgensen and Salva's (2007) College Student Financial Literacy Survey (CSFLS) to measure financial skills and family financial socialization. Participants responded to items that related to their financial skills. Examples of statements included, "My ability to manage my own finances is strong" and "I maintain financial records." Each response was measured using a 5-point Likert scale, ranging from 1 (*strongly disagree*) to 5 (*strongly agree*).

Family financial socialization was measured using five items developed from the same survey (CSFLS) from Jorgensen and Salva (2007). Items regarding parental/guardian financial behaviors included statements like, "My parents/guardians explicitly spoke to me about finances," and "I witnessed my parents/guardians engaging in positive financial behaviors." Responses were also measured using a 5-point Likert scale, ranging from 1 (*strongly disagree*) to

5 (*strongly agree*). “I owe money for student loans” was not included in the financial skills survey due to likely confounding with socio-economic status (SES). “I owe money on my credit cards” was only included in the financial skills survey for a second analysis limited to the 39 participants who reported having one or more credit card.

Procedure

Participants received a link to the survey via email. All participants were assured that their responses would remain totally anonymous. Participants were also informed that they could stop the study at any time if they wished. The participants then took the survey online via Qualtrics. After surveys were completed all data was saved to Qualtrics. All data from Qualtrics was then uploaded by the researchers to SPSS. Correlations were calculated at both the variable and item level.

Results

The average item score for item three “I owe money on my credit card” for participants owning one or more credit cards was 2.38 (SD = 1.26), indicating that participants reported being between “disagreeing” and “neutral” in terms of owing on their credit cards. The average item score for item five “I owe money for student loans” was 2.95 (SD = 1.58) indicating that participants reported being between “disagreeing” and “neutral” in terms of owing on their student loans.

The first bivariate correlational analysis was conducted to measure the relationship between financial skills and family financial socialization among the entire sample. No association was found, $r = .002$, $p = .991$. The second bivariate correlational analysis was conducted to measure financial skills, including the item about credit card ownership, and family

financial socialization." A statistically significant association was not detected, $r = -.154$, $p = .363$.

Inter-item correlations were also calculated between student financial skills and family financial behaviors. A correlation was conducted to evaluate the relationship between owing money on one's credit card and family financial skills. There was a strong, negative relationship between owing money on one's credit card and having grown up with parents/guardians who saved money, $r = -.496$, $p = .002$. There was a significant ($p = .039$) moderate, negative relationship, $r = -.270$ between one's ability to manage their finances and their parents/guardians explicitly speaking to them about finances. One's ability to manage their own finances was correlated with other family financial skills such as learning about either budgeting, taxes, debt, etc. ($r = .228$, $p = .082$) and having parents who explicitly spoke about finances ($r = .238$, $p = .069$). Both of these weak correlations approached significance.

There was also an interesting statistically significant relationship between maintaining one's financial records and witnessing parents/guardians engaging in positive financial behaviors. It was a negative, moderate relationship, $r = -.317$, and it was statistically significant, $p = .015$. This finding was in the opposite direction than expected. There was a strong, negative relationship between owing money for student loans and having parents/guardians who saved money, $r = -.524$, $p < .001$. Additionally, there was a moderate, negative relationship between owing money for student loans and witnessing parents/guardians engaging in positive financial behaviors, $r = -.283$. This relationship was also statistically significant, $p = .030$. The average scores for financial skills were also compared based on year in school. Overall, there seemed to be a trend of an increased score on financial skills as year in school increased (See Table 3).

Discussion

It was hypothesized that college-aged students who discussed finances with their guardians and witnessed them engaging in positive financial behaviors growing up would exhibit more positive financial skills of their own. The hypothesis was supported at the item level. Item level correlations showed some interesting results with certain family financial skills more than others relating to college students' financial skills. There were surprising inverse relationships that contradict the literature, such as the relationship between parents/guardians talking about finances and one's ability to manage their finances. Interestingly, there were very strong, negative, relationships between both owing student loan debt, and owing money on one's credit card with parents saving, suggesting that parents who saved money were better equipped to afford college, resulting in their children owing less in student loans and credit card debt. The hypothesis was not supported at the variable level. These mixed findings reflected mixed findings in previous research; Allen et al. (2007), found that explicit teaching leads to less debt accumulation whereas Jorgensen and Salva found that students did not perceive parents as influencing their financial knowledge or behaviors (cited in Hancock, Jorgenson, & Swanson, 2012, p. 371).

Limitations

There were several limitations to this study. This was a pilot study intended to replicate existing studies in hopes of finding support for the family financial socialization theory literature among the SUNY New Paltz student population. The survey used was adapted from the larger College Student Financial Literacy Survey (CSFLS; Jorgenson & Salva, 2007). In the future, more questions could be added to get a better, more specific sense of college student financial behaviors, such as do they owe any student loans or more qualitative questions about their

perceptions of their own financial abilities. Additionally, certain items were not relevant to all participants. Items regarding student loan debt and credit card debt might not have translated so well for this survey as representing more or less financial skills. More questions per variable have the potential to improve the reliability of measures. For instance, background questions could have been more specific, especially when asking about adults present in one's childhood household. Contextual factors such as whether the household contains a stepparent or grandparent, could be relevant and affect results. Additionally, only psychology and education students were surveyed; in the future a similar study should be conducted with students from more diverse backgrounds to improve the generalizability of the findings. Interpreting results from surveys can be difficult because they rely on self-report which can be vulnerable to participants' motivation to provide desirable responses. Finally, all of the results in the current study are correlational in nature, so causation cannot be attributed to these relationships.

Future Directions

Future research could look at several other factors that might influence financial behaviors. Personality is a relevant factor that might contribute to whether or not a person has more positive or more negative financial behaviors; personality traits such as neuroticism, conscientiousness, openness, and impulsivity. The subjective well-being of individuals can also affect their spending and financial behaviors; mental health issues and stress levels can cause damage, regardless of family socialization. Additionally, future research could look at development to see how financial behaviors and skills differ among students as they mature.

While the research conducted focused primarily on direct interactions between parents and children, low socio-economic status (not having the means and resources to give you an edge) can prevent young adults from practicing positive financial behaviors. For these very

reason's, items 3 and 5 on the financial skills survey were not included in the total score. Student loan debt and owing money on your credit card are not necessarily representative of poor financial skills, several other factors like low socio-economic status can influence these variables. SES should be measured separately and incorporated into future investigations because it could be an important influence on student financial circumstances and associated behaviors.

Additionally, the majority of the participants in this study grew up with two parents present in their household, so it would be interesting to investigate the effects of a single parent versus two parent household and how that might play a role in the financial literacy of college students. It would also be interesting to look more directly at the effect of problematic, negative family financial behaviors such as excessive buying, crippling debt, and inability to pay bills, would have on students.

Conclusion

Not much research has been done on financial behaviors in young adults, but the hope for future research is to identify factors that can help young adults' practice more positive financial behaviors. This research and future research done on factors that influence maladaptive financial behaviors such as family financial socialization would mean that we could take proactive measures to educate and help mold children into financially responsible young adults. With better financial skills, the overall well-being of people would likely improve; fewer financial problems would mean less stress and more happiness.

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Appendix

Descriptive Statistics

	N	Mean	Standard Deviation
Financial Skills of College Students	59	10.24	2.002
Family Financial Skills	59	17.53	3.607

Table 1: Descriptive Statistics of Financial Skills Variables

	N	Mean	Standard Deviation
Item 3: I owe money on my credit card	37	2.38	1.255
Item 5: I owe money for student loans"	59	2.95	1.580

Table 2: Descriptive Statistics for Items 3 &5 on Financial Skills Survey

Year in School	N	Mean	Standard Deviation
Freshmen	8	9.63	1.506
Sophomore	16	10.25	1.983
Junior	17	10.24	2.078
Senior	18	10.50	2.229

Table 3: Means of Year in School Compared with Score on Financial Skills

Variable Correlations

		Financial Skills of College Students	**Family Financial Skills**
Financial Skills of College Students	Pearson Correlation	1	.002
	Sig (2-tailed)		.991
	N	59	59
Family Financial Skills	Pearson Correlation	.002	1
	Sig (2-tailed)	.991	
	N	59	59

Table 4: Correlation between family financial skills and financial skills of college students.

		Family Financial Skills	**Financial Skills of College Students w/ Item 3 "I own one or more credit cards"**
Family Financial Skills	Pearson Correlation	1	-.154
	Sig (2-tailed)		.363
	N	37	37
Financial Skills of College Students w/ Item 3 "I own one or more credit cards"	Pearson Correlation	-.154	1
	Sig (2-tailed)	.363	
	N	37	37

Table 5: Correlation between family financial skills and financial skills of college students with credit cards.

Inter-item Correlations

FAMILY FINANCIAL SKILLS:

FINANCIAL SKILLS ITEMS:		I learned about one or more of the following at home while growing up: budgeting, taxes, credit, debt, keeping financial records.	My parents/guardians explicitly spoke to me about finances.	My parents/guardians saved money.	My parents/guardians discussed finances with each other.	I witnessed my parents/guardians engaging in positive financial behaviors.
My ability to manage my own finances is strong.	Pearson Correlation	.228	.238	-.270*	-.095	-.139
	Sig. (2-tailed)	.082	.069	.039	.473	.295
	N	59	59	59	59	59
Some people tend to be very thrifty, saving money whenever they can. I feel like I am a thrifty person.	Pearson Correlation	.043	.121	.054	.031	-.029
	Sig. (2-tailed)	.748	.362	.685	.817	.824
	N	59	59	59	59	59
I maintain financial records (keep receipts, tax forms, pay stubs).	Pearson Correlation	.182	.172	-.188	-.016	-.317*
	Sig. (2-tailed)	.169	.192	.155	.906	.015
	N	59	59	59	59	59
I owe money for student loans.	Pearson Correlation	-.059	-.137	-.524**	-.218	-.283*
	Sig. (2-tailed)	.659	.300	.000	.097	.030
	N	59	59	59	59	59

Table 6: Inter-item correlations between family financial skills and college student financial skills.

FAMILY FINANCIAL SKILLS:

		I learned about one or more of the following at home while growing up: budgeting, taxes, credit, debt, keeping financial records.	My parents/guardians explicitly spoke to me about finances.	My parents/guardians saved money.	My parents/guardians discussed finances with each other.	I witnessed my parents/guardians engaging in positive financial behaviors.
I owe money on my credit card.	Pearson Correlation	-.140	-.166	-.496**	-.047	-.137
	Sig. (2-tailed)	.408	.325	.002	.782	.418
	N	37	37	37	37	37

Table 7: Inter-item correlations between family financial skills and students who owed money on their credit card(s).