

Wealth makes no difference to teaching financial skills, research finds

March 11 2013

Research has found wealthy people often fail to formally pass on financial literacy skills to the next generation. This is despite the fact that many have concerns about the ability of their intended heirs to manage their inheritance well.

Massey University senior lecturer Dr Claire Matthews says she found the results of the interviews with high net worth individuals "quite surprising".

"We know from previous research, including the Fin-Ed Centre's [longitudinal study](#), that people pick up their [financial literacy](#) skills from observing their parents, rather than formal instruction," she says.

"But with this particularly group there was an expectation they would want to actively pass their [financial knowledge](#) onto their kids. Unfortunately that's not necessarily the case."

In the research face-to-face interviews were conducted with people whose net worth was valued at \$1 million or higher, with the aim of understanding how they taught their children to manage money.

"The coming years will see a massive shift in wealth as baby-boomers start to transfer their assets to their children, so it's important that there is also an effective transfer of financial literacy," Dr Matthews says.

"Without that happening, the next generation will repeat the same

expensive, yet avoidable, mistakes that come with the traditional trial-and-error approach to gaining financial wisdom. For this group that brings a risk of losing significant wealth, of destroying value rather than creating it."

One-third of those interviewed had concerns about their heirs' ability to handle their inheritance, yet 70 per cent of those with concerns stated that they had not provided their heirs with any assistance.

"It's interesting that 94 per cent said it was either 'important' or 'very important' to provide their children with strategies for [financial success](#), but very few actually discussed [financial matters](#) with their family. This highlights a huge gap between thought and action, which is cause for concern.

"There seemed to be an almost Victorian attitude towards talking about money – as one participant put it, 'I'm sure financial matters are more sensitive than sex.'"

Dr Matthews says it is important for all parents to discuss financial literacy with their children.

"The Fin-Ed Centre's longitudinal study found that 72 per cent of young people looked to their parents as positive financial role models, so I think parents need to take that on board. As well as the discussion about the 'birds and the bees' they need to have the 'big money talk'," she says.

"And if [parents](#) don't have a high level of financial literacy themselves, they need to go out and get those skills so they can pass that really important knowledge onto their kids."

More information: Dr Matthews' co-authored paper 'Intergenerational transfer of financial literacy' can be downloaded from: bit.ly/Y7FFEv

The first longitudinal study results 'How young New Zealanders learn about personal finance' can be downloaded from: bit.ly/YTCdhq

Provided by Massey University

Citation: Wealth makes no difference to teaching financial skills, research finds (2013, March 11) retrieved 20 April 2024 from <https://phys.org/news/2013-03-wealth-difference-financial-skills.html>

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