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Study shows children need hands-on experience to learn financial responsibility

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Children who are given opportunities to manage money when they're young are more likely to be financially responsible as they enter adulthood, says a new study from BYU.

"It's evident that what parents do when their kids are young affects their financial outcomes later," said Dr. Ashley LeBaron-Black, BYU professor of family life and lead author of the study. "Beyond talking about money management, it's really important for parents to give kids an opportunity to manage money and make decisions with money from a young age."

The study, recently published in *Family Relations*, surveyed over 4,000 young adults, asking a range of questions to understand how they learned money management from their parents during childhood. The results of the study found that while it was important for parents to talk to their kids about money management and to model good financial behaviors, these efforts alone weren't enough to empower children financially and prepare them to flourish as financially responsible young adults.

The research found that the most effective thing a parent can do is to provide experiential learning opportunities for their children, allowing them to oversee their own money and practice making financial decisions. Children who learned from experience were more likely to be confident in making financial decisions in young adulthood.

In another study using the same survey data, LeBaron-Black and her team found that how well parents taught children about money was linked not only with financial outcomes but also with mental health outcomes in young adulthood. "Providing children with their own experiences managing money leads to higher financial self-efficacy throughout their life, which correlates with higher life satisfaction, less depression and anxiety, and higher financial independence from parents," said LeBaron-Black. Her research also found links between parents' financial teaching and young adults' romantic relationship quality.

Allowing children to manage money can be intimidating for parents at first, but LeBaron-Black suggests starting with simple activities. For example, a toddler could be given a simple 3-slot bank to store their money: one slot for savings, one for giving, and one for spending. As they grow, children can practice budgeting, saving for short-term goals like a bike, saving for long-term goals like college, paying tithing, spending money wisely, and opening savings or other investment accounts. Parents can help them identify their own financial goals and work intentionally towards them.

"Keep trying, even when it seems difficult," said LeBaron-Black, noting that setting children up with a strong foundation of money management takes time and consistency. "In the years to come, the small efforts you're making are going to pay off for your kid."

It's a pattern that can apply to many aspects of parenting. Discussions are vital, but verbal teaching alone is not enough. "When parents give children opportunities to make their own choices and experience the consequences, whether positive or negative, children will be much better at making choices throughout their lives," said LeBaron-Black.

More information: Ashley B. LeBaron-Black et al, Talk is cheap: Parent financial socialization and emerging adult financial well-being, *Family Relations* (2022). DOI: 10.1111/fare.12751

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