Young People and Financial Independence

A report from the
Social Issues Research Centre
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1 Executive summary

This study, commissioned by The Children's Mutual, has built on the broad findings of *The Trust Fund Generation*[1] report and has focused specifically on young adults and perceptions of their own level of financial dependence/independence. Independence in this context refers to freedom from the need to rely on financial contributions and support from parents in order to maintain oneself and one's lifestyle. To what extent do they see themselves as financially reliant on their parents and how far into what would normally be seen as adulthood does this continue?

The main findings of the study, based on interviews and a national poll are:

- Only a small minority (6% males and 9% females) of young people aged between 18 and 25 feel that they are completely financially dependent on their parents. The majority either feel relatively or totally independent while a quarter perceive themselves as being at a 'halfway' stage towards independence.
- The young people who feel the most financially independent tend to be middle class, aged between 21 and 25 and in full-time work. They are also slightly more likely to be female rather than male.
- Nearly 45% of full-time students, however, consider themselves to be financially independent.
- Having debts in the form of overdrafts, personal loans and credit cards increases the sense of financial independence – perhaps through experience of financial management or because those with no debts have been bankrolled by their parents.
- Despite the fact that most young people feel wholly or partly financially independent, they still acknowledge their parents' role in paying university fees (for nearly 30% of our poll sample), providing rent-free accommodation (42%) and helping with living costs (41%). Young people today increasingly feel that their parents have a duty to support them financially past the age of 18 – it is no longer a special sacrifice.
- We describe the perception of financial independence that the majority of young people share as an 'illusion' – it is a subsidised independence that relies on increasing parental contributions towards the well-being and lifestyles of their emerging adult offspring.
- While increasing financial dependence on parents looks set to be the norm for young people in the foreseeable future, the majority feel that 'true' independence would cost less than we might expect. The largest group of respondents (around a third) would settle for an annual income of £16,000 or less – especially those who feel that they are already quite independent. Those who feel the least independent take the view that they would need incomes in the £20,000 or more category to allow them to live independent lives.

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[1] The report can be downloaded from http://www.sirc.org/publik/trust_fund_generation.shtml

The Child Trust Fund (CTF) is a long-term savings and investment account for children. It was set up by the government to: "ensure that children have savings at the age of 18; help children get into the habit of saving; help parents teach children about the benefits of saving; help children to understand about personal finance."

Children born on or after 1 September 2002 receive a £250 voucher to start their account. Children of parents on low incomes receive an extra £250. The account belongs to the child and cannot be touched until he or she turns 18. The government is also committed to adding a further sum to the fund when they reach the age of seven.

Parents that do not invest the government's voucher within a year will have it invested for them by HM Revenue and Customs.

Parents, or anybody else, can contribute further sums to the accounts up to a maximum of £1,200 per year. The final value of the account will depend on the level of additional contributions and investment growth over the time span of the fund.

2 Introduction

Last year The Children's Mutual commissioned the Social Issues Research Centre to conduct research that examined the broad process of 'emerging adulthood' – the transition from the status of dependent child to that of independent, autonomous 'grown up'. We noted in *The Trust Fund Generation* report the somewhat unrealistic expectations of young people about when they would leave home, get married and buy their first home, etc. Their estimates were almost always at a younger age than the current averages. Such delays in achieving what we might take to be hallmarks of adulthood have been steadily increasing for the last three decades and have accelerated since 2001.

We also noted in our earlier report the extent to which young people remained financially dependent on their parents for far longer than was the case only a couple of decades ago. Their apparent reluctance to flee the nest reflects extended periods of higher education (and the debts that accompany them), high property costs and other factors. It is also the case, however, as we stressed in *The Trust Fund Generation*, that young people increasingly expect support from their parents well beyond the school leaving age when, in the past, children were expected to become contributors to family income, rather than a continuing expense.

Looking back through history we find that at the end of the 19th century even quite young children played an important part in the family economy. Rather than receiving pocket money they were expected to add to the family income from wages earned in mines, factories and other areas of industrial production. For most young men in the Victorian era (very few women at the time were ever completely financially self-sufficient), becoming financially independent often involved learning a trade, finding a wife and, eventually, establishing his own household without much in the way of financial support from parents. In fact, working-class Victorian parents were more likely to try to keep children at home because they were a valuable source of extra income[2].

It was not until the first half of the twentieth century that this flow of money between children and parents began to change direction. As the nature of the economy changed, and popular ideas about children shifted to embrace a more romantic idea of childhood as a time of innocence and play, it became commonplace for parents to give children pocket money and other forms of financial support. Children spent less time in work and more time at school, extending the period during which they remained dependent on their parents for financial support. With the increasing importance of consumer culture as part of modern social identity, the process of raising children also started to involve spending more money and by the 1950s, parents were for the first time expected to be able to provide all the new consumer items vital to being a 'teenager'.

For their part, young people in Britain in the middle of the twentieth century were also finding ways to make their own money and cut the parental purse strings. The abundance of jobs for young people meant that transitions into adulthood could happen relatively quickly. In the second half of the twentieth century, however, the process of becoming an adult, and the pathways towards financial independence, started to become more complex for young people in Britain. The school leaving age was raised to 16 in 1972, meaning children stayed at home and in school for

[2] See, for example, Cunningham, H. (2005) *Children and Childhood in Western Society Since 1500*. Pearson/Longman.

longer than ever before. Access to Higher Education (universities and what were then polytechnics) was also vastly increased, while the certainty of a job after school started to diminish as the UK economy moved steadily away from manufacturing and secondary production. The transition into full-time employment was, therefore, extended even further. It became increasingly common-place, and increasingly acceptable, for parents to continue to support their children well into their twenties, if not beyond. Now, in the first decade of the 21st century, financial dependence on parents has become a fact of life for children and young adults and a normal obligation for parents raising grown up kids.

This process has had repercussions in a number of areas of social life. Young people now get married much later than was the case in the middle of the twentieth century – if, that is, they get married at all. Today's younger adults also have fewer children, later in life. While some may leave home to attend university, a large proportion of young adults remain at home, or return to live in the parental home, until well into their twenties and thirties. Today, almost 60% of British men and 40% of women aged 20-24 still live in the parental home.

If more young people are experiencing longer and more complex transitions into adulthood this raises some very interesting questions about the idea of financial independence. Just as the meaning of financial independence has shifted since the Victorian era, is such independence in the present different from what it meant, say, twenty years ago? How do young people today define financial independence? Does it involve, as it has done in the past, severing completely the parental purse strings? Or does 'independence' actually involve the freedom to continue spending mum and dad's money? Does independence involve being financially solvent, or does it mean accepting responsibility for debts and loans?

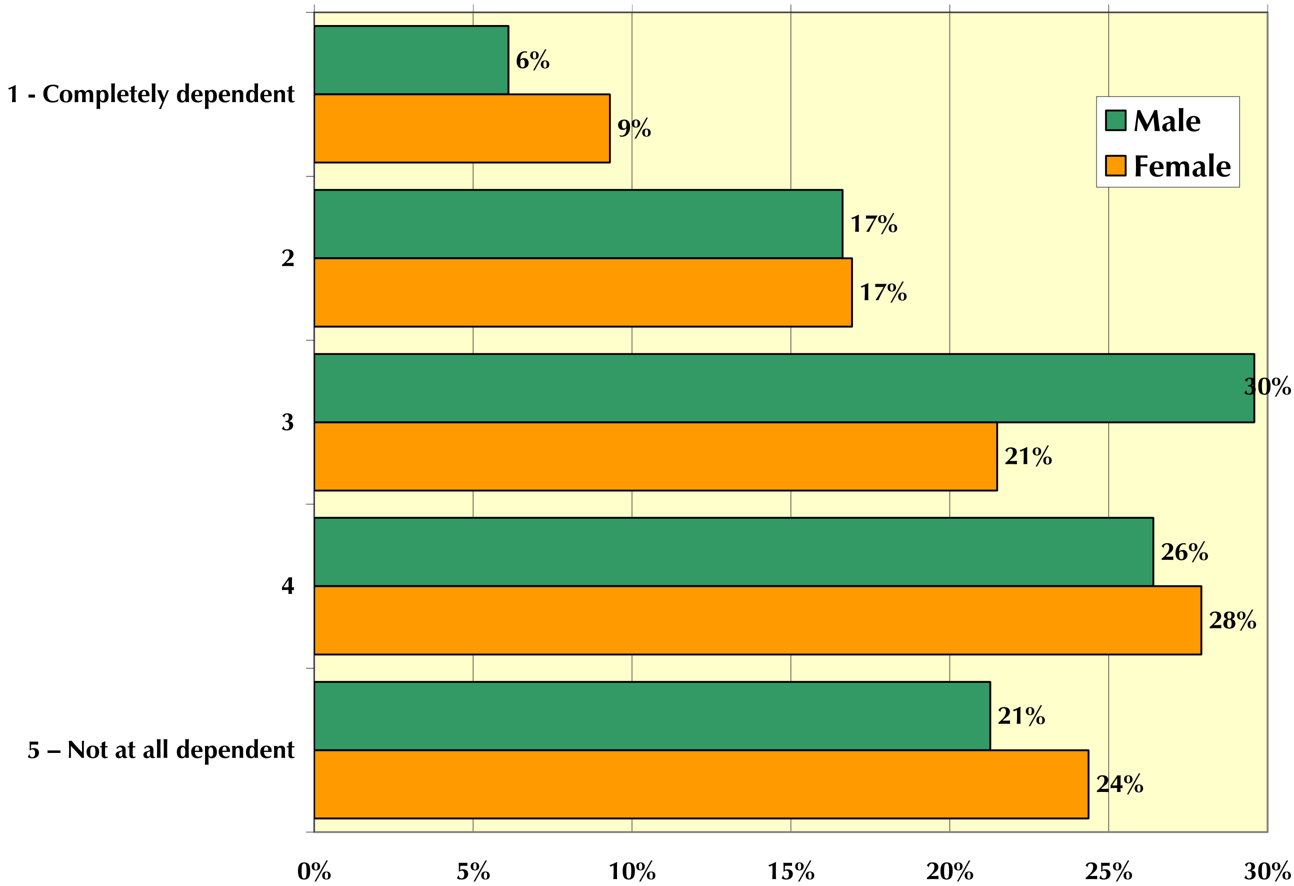
In this follow-up to the original study we have focused on young men and women aged between 18 and 25. After a set of one-to-one interviews to identify the most relevant themes within the broad area of financial independence, a national poll of 1,000 representative British people in this age group was commissioned from Opinium Research and conducted online between December 5th and 9th 2008.

3 How independent do young people feel?

Given what we know about the extent to which many parents continue to support their offspring well into their adulthood – in the *Trust Fund Generation* report we noted that the majority of parents expected to be supporting their offspring past the age of 18 and perhaps into their 30s – we expected that a large proportion of young people in our poll sample would recognise the degree to which they were financially dependent on their mothers and fathers. The results, however, were rather surprising.

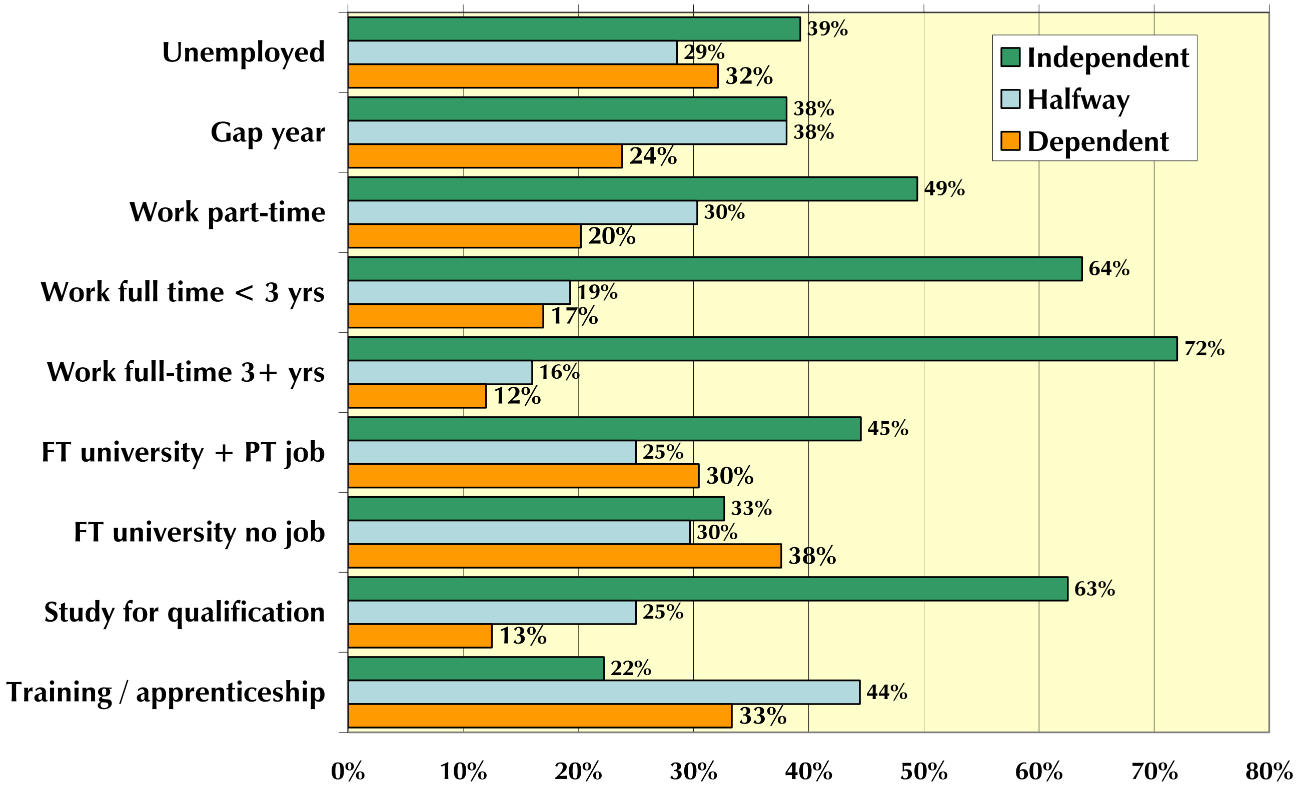
We asked them to rate their level of financial dependency on a five-point scale ranging from 'Completely financially dependent' (score of 1) to 'Completely financially independent' (score of 5). By 'dependence' and 'independence' we mean simply the extent to which young people rely on money, in cash or kind, from their parents to maintain themselves and their lifestyles. Only 6% of young men and 9% of young women expressed complete dependence and less than 20% of either sex felt partially dependent (score of 2). Thirty percent of males and 21% of females selected the midway position. The largest proportions, however, rated themselves towards the independent end of the scale with 47% of males and 52% of females selecting options 4 or 5, as shown in Figure 1.

Figure 1. Self-ratings of financial independence



Such perceptions of independence, as we would expect, varied according to the employment or education status of the young people. Those who had been in full-time work for three years or more naturally felt the most financially independent from their families. Seventy two percent of these placed themselves in the 'Independent' group (scores of 4 or 5) compared with only 26% who placed themselves in the 'Dependent' group (scores of 1 or 2). Even among full-time students, however, who objectively are the most likely to be financially dependent on the parents, a sizeable proportion felt a sense of independence. Of those with part-time jobs while at university or college, for example, 45% put themselves in the Independent group compared with 25% in the Dependent group. Even among students without part-time jobs, the largest proportion (38%) placed themselves in what we can describe as the 'Halfway' group – score of 3 – compared with only 30% who felt that they belonged in the Dependent group. The only group in the poll sample who predominantly saw themselves as financially dependent on their parents consisted of those undergoing training courses or apprenticeships – a very small minority of less than 1% of the total sample, as shown in Figure 2.

Figure 2. Perceptions of financial independence by employment status



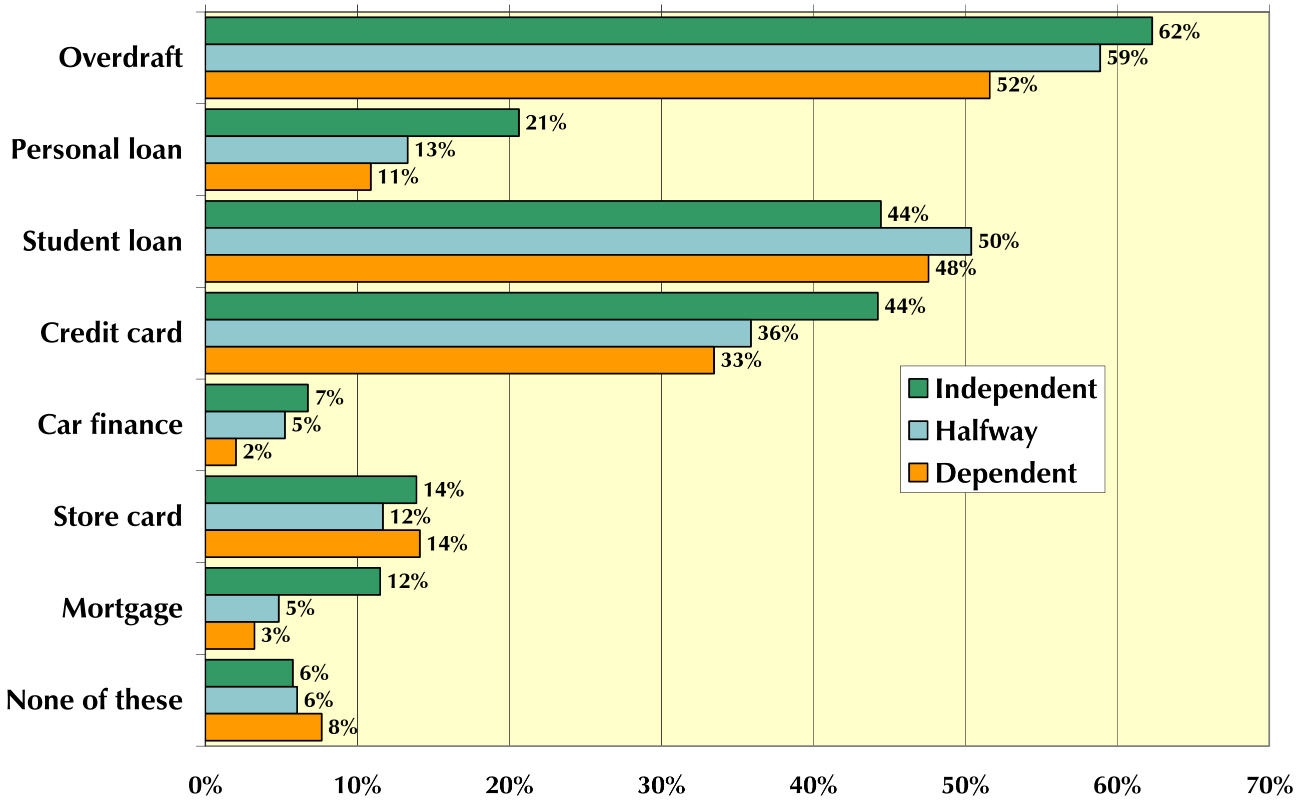
Ironically, perhaps, it was young people from middle class families (socioeconomic groups ABC1) who felt themselves to be more financially independent than those in the lower C2DE groups – 41% of those from middle class backgrounds saw themselves as being 'not at all dependent' compared with only 19% of those from less affluent families. We would have expected that relatively well-off parents would provide more in the way of support for, say university education, mortgage deposits, etc. than mothers and fathers in the C2DE socioeconomic groups. This may, indeed, be the case. But it does not seem to affect the perceptions of independence held by young middle class people. Perhaps because middle class parents are seen as being more able to afford the financial support that they give to their offspring, the sense of dependency is reduced. It may also be the case that because young people from working class backgrounds are more aware of the 'sacrifices' that their parents might have to make in order to support them financially, they are more able to acknowledge their dependency on them.

There were some differences between the older and younger respondents in this context. As we would expect, those aged between 21 and 25 were more likely to perceive themselves as financially independent than those aged between 18 and 20 – 55% versus 38%. The gap between the age groups overall, however, was relatively small with a similar minority (around 25%) in each case rating themselves as being financially dependent on their parents.

4 Independence and debt

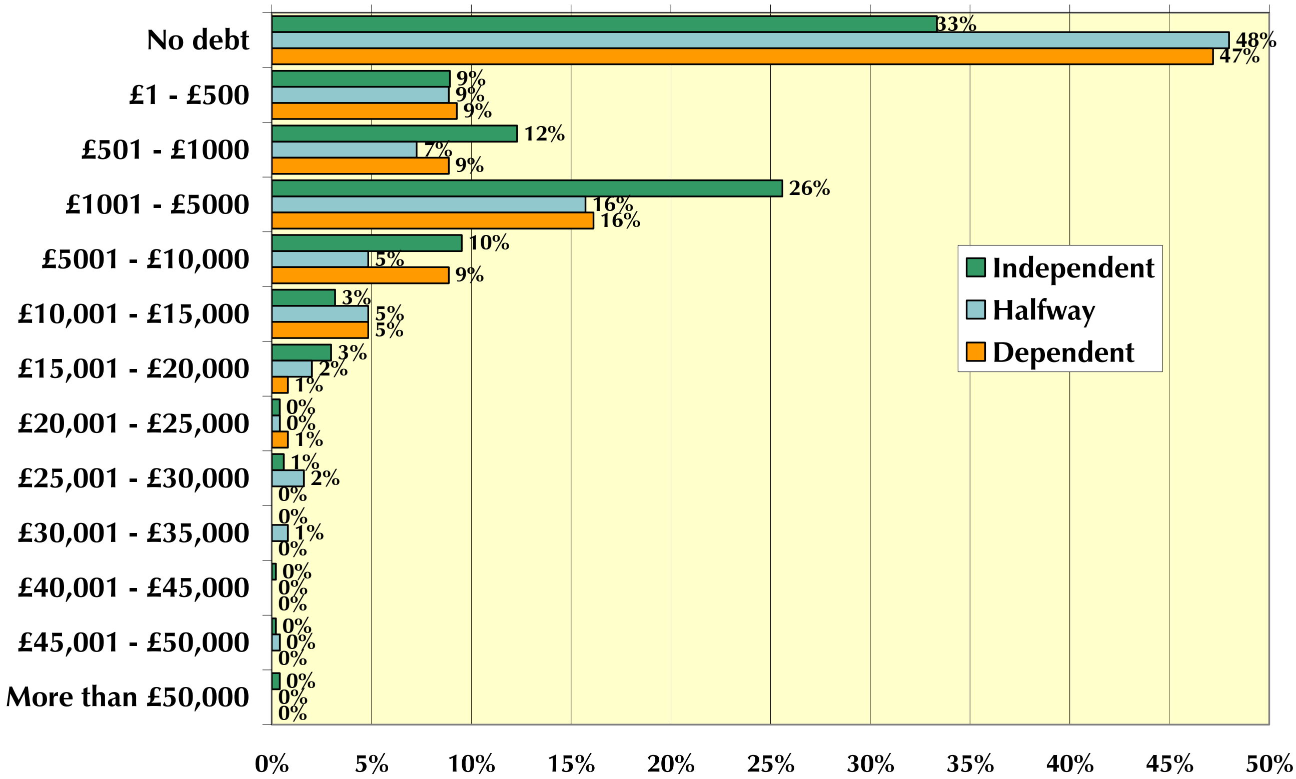
Student loans decreased the sense of independence slightly, but even here those who had such loans were fairly evenly spread across the 'Independent', 'Halfway' and 'Dependent' groups. Having overdrafts, personal loans and credit cards had little impact at all on perceived financial independence, as shown in Figure 3.

Figure 3. Perceived independence by types of debt



The amount of debt was, perhaps surprisingly, inversely related to perceptions of financial independence, as shown in Figure 4. Those respondents who said that they had no debts were more likely to place themselves in the Dependent or Halfway groups than those with debts running into the tens of thousands. Those with debts of £1,001 to £5,000 were the most likely to see themselves as being financially independent of their parents.

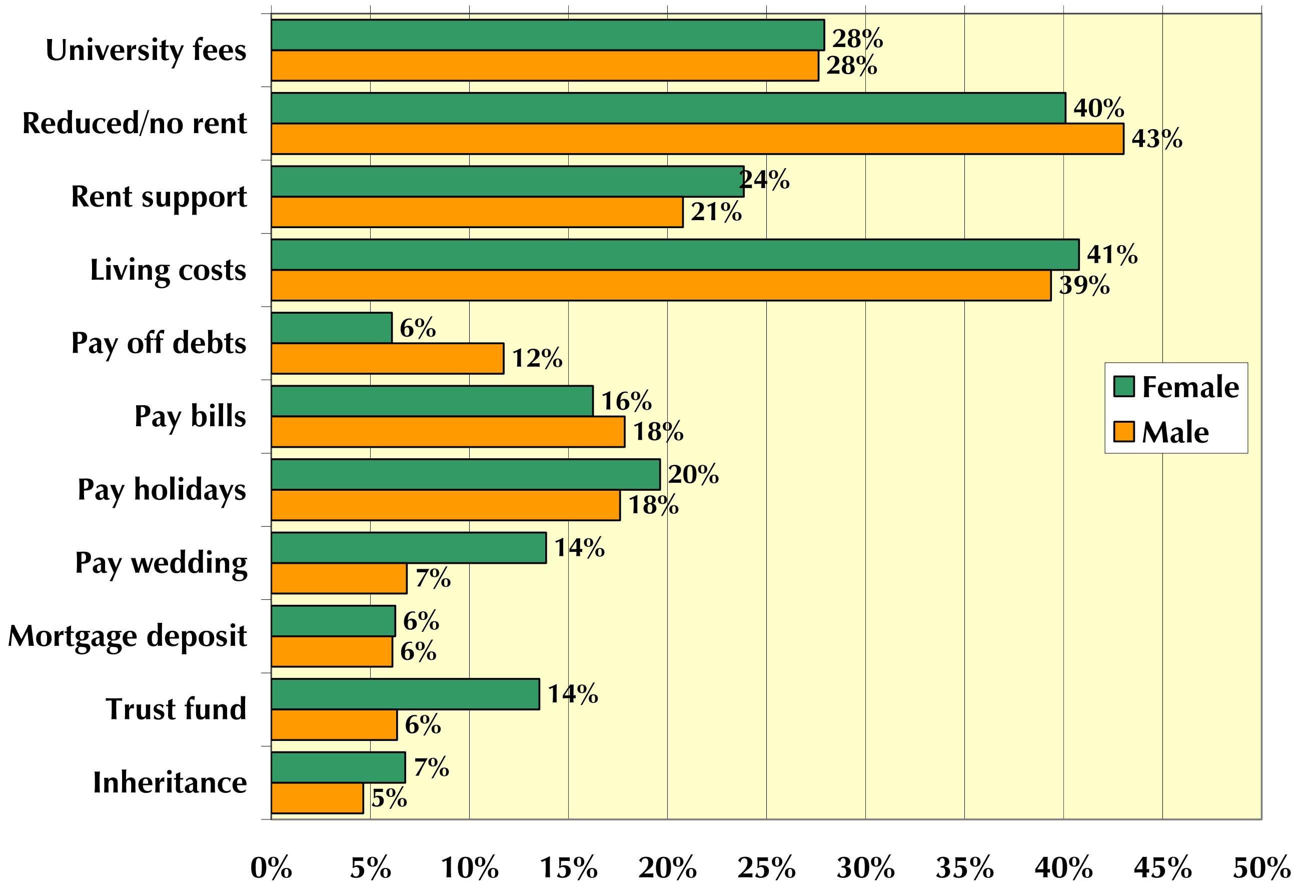
Figure 4. Perceived independence by amount of debt



Having personal debts, of course, does at least provide young people with experience of money-management. It is this sense of financial experience that may be a factor in increasing a sense of independence. It may also be the case that those young people with little or no debt were in that position only because of 'bankrolling' from their parents, highlighting more acutely their degree of financial dependence.

The fact that respondents rated themselves as being in the financially Independent group did not, however, preclude them from acknowledging financial support from their parents at the same time, as shown in Figure 5. Twenty two percent, for example, said that they received help with university fees while 39% said that they paid little or no rent while living at home. Other 'Independents' were helped by their parents with general living costs and one-off payments towards holidays, getting married or mortgages.

Figure 5. Acknowledged financial support from parents



It was also the case that only just over a third (34%) of the Independent group said that they received no financial support from their parents. The majority continued to receive money 'as they needed it' or from time to time in various amounts and for a range of purposes.

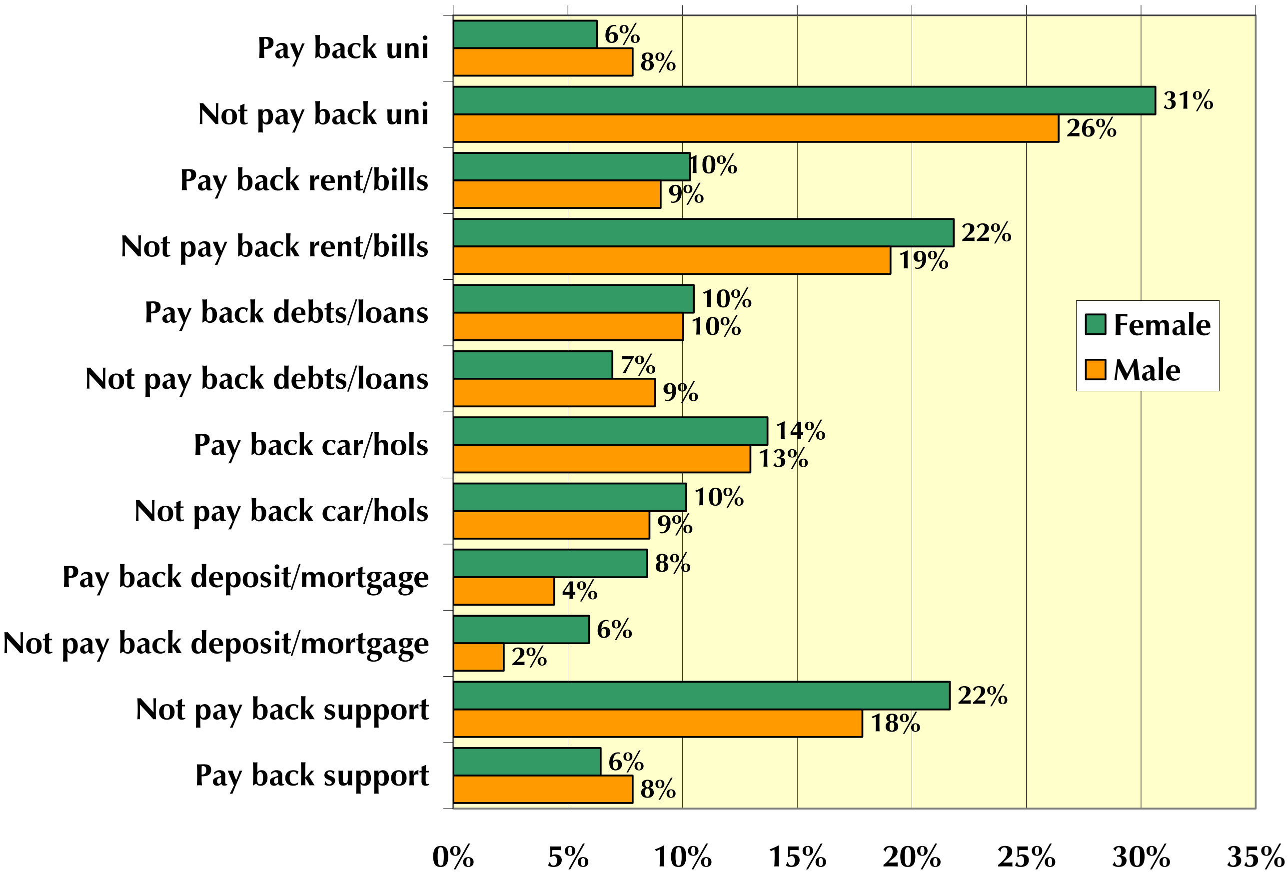
The sense of financial independence expressed by so many of our poll respondents is, it seems, something of an illusion, but perhaps an understandable one. At this time of life young people are seeking a sense of identity in both social and personal terms and that most often requires a sense of freedom from the parental controls and accompanying dependence that characterised their childhoods. They, as we all have done at some point in our lives, need at least to feel that they have broken free from their mums and dads to become people in their own right, even if that freedom continues to be financially subsidised by parents.

5 Subsidised independence

This notion of 'subsidised independence' seems to capture quite accurately the lives of many young people today. They *feel* independent even though they acknowledge the financial support that many parents provide for them and this is consistent with what we found in the earlier *Trust Fund Generation* study. There is now an increasing expectation among children and young people that parental responsibilities should extend well into their offsprings' adulthood. It is, in a sense, the parents' 'duty' to help them with going to university, getting married or (eventually) getting their own home. For this reason it seems that sentiments of dependency or even gratitude are not necessarily appropriate.

There was also a general lack of a sense of need to repay parents for the financial support that they provided. Very few, for example, felt that it would be expected to return parental contributions towards their university education. Nor did young people in the national sample expect to repay money that had been given to them to help meet living expenses, rent or other recurring costs. Only in the case of 'special' help for one-off items such as a car or a holiday did young people feel that some kind of 'pay back' was due.

Figure 6. Perceived need to repay parents



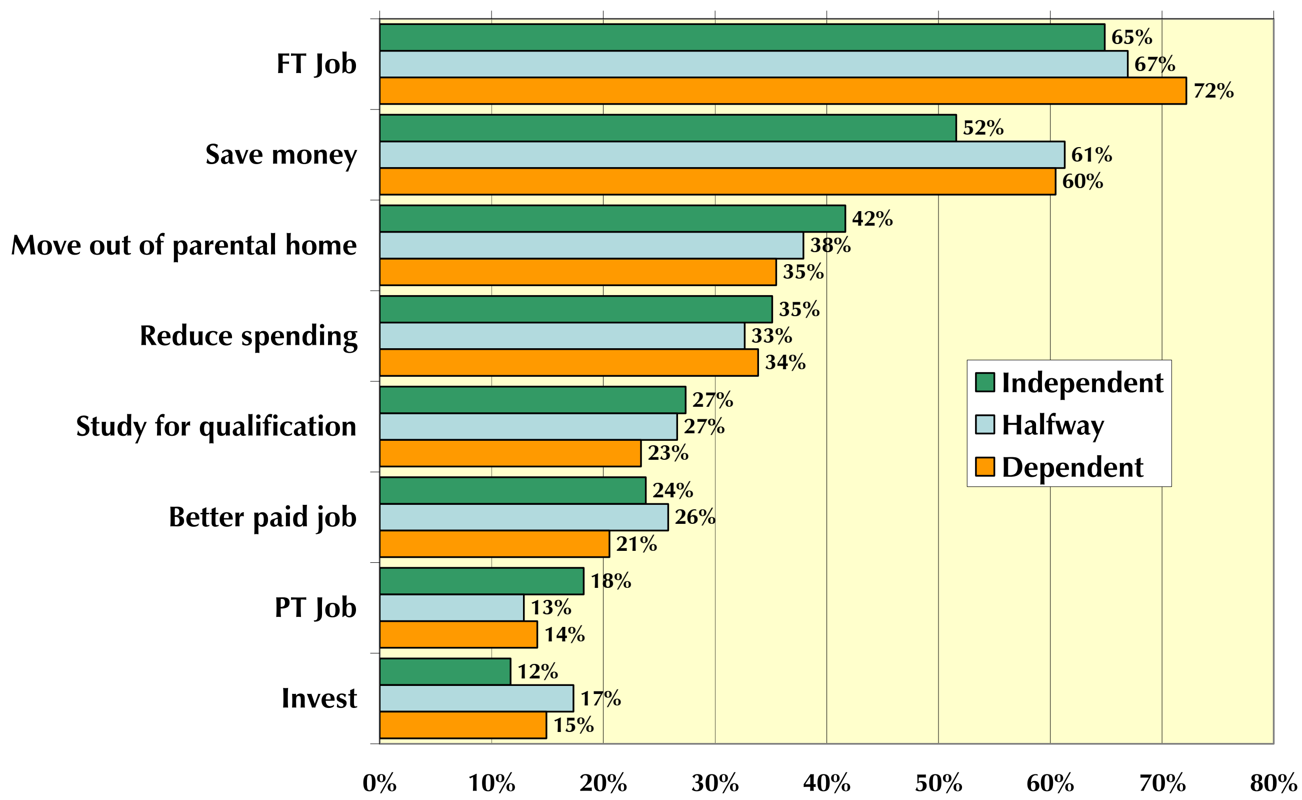
When asked to indicate either when they had achieved financial independence from their parents or when they expected to do so, the peak age across all groups of respondents was between 22 and 23. For the Dependent group the anticipated age of independence was later – between 24 and 25 – while for those who perceived themselves as being less dependent it was considerably earlier – between 18 and 19. These predicted ages of independence are, of course, unrealistically low. We must remember, however, that the notion of financial independence held by young people, whether already achieved or still to come, is a very subjective one and, in many cases, quite illusory. Although they might *anticipate* that their financial independence will be achieved quite soon, in reality many of these young people will continue to receive financial support from their parents well beyond such points in time.

It was also the case that while the large majority of poll respondents associated financial independence with becoming an 'adult', over a third (36%) felt that this did not preclude them from receiving occasional support from their parents. Only a fifth of respondents felt that financial independence meant a complete absence of parental support. Eleven percent also said that it was possible to be an independent adult and still depend on parents for financial support. The downside of this from the young people's perspective, however, was the fact that parents could continue to exercise control over their lifestyles and future plans

This is very much consistent with the process of identity seeking among young people noted above. The illusion of financial independence carries with it a sense that one is now beyond parental control, whether it is in regard to dress style, relationships or personal habits. When continuing financial dependency is, perhaps reluctantly, acknowledged an equally reluctant recognition of parental authority becomes evident.

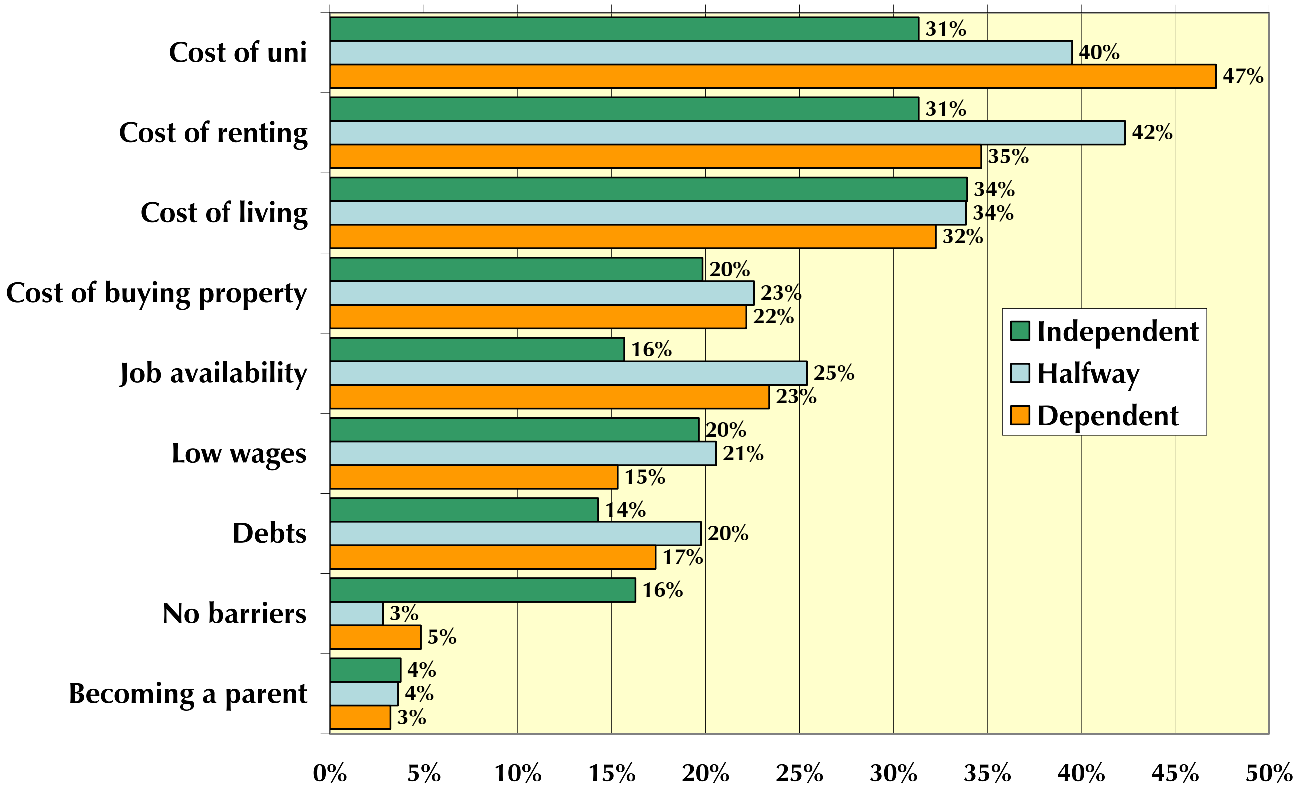
Despite the illusion of financial independence that many young people appeared to be experiencing, most shared the same notion of what it would take to become truly independent. Those in the Dependent, Halfway and Independent groups all thought that they would need a full-time job, some money in the bank and have moved out of the parental home in order to achieve complete independence, as shown in Figure 7. The fact that many had reached none of these qualifying stages did not, as we have seen from the observations above, deter them from describing themselves as already independent.

Figure 7. Perceived conditions for 'true' financial independence



At the same time, a quite realistic appreciation of the potential barriers to achieving financial independence was evident. The expenses associated with going to university, rent and general living expenses together with the cost of buying one's own home were seen as the most significant obstacles in this context, as shown in Figure 8.

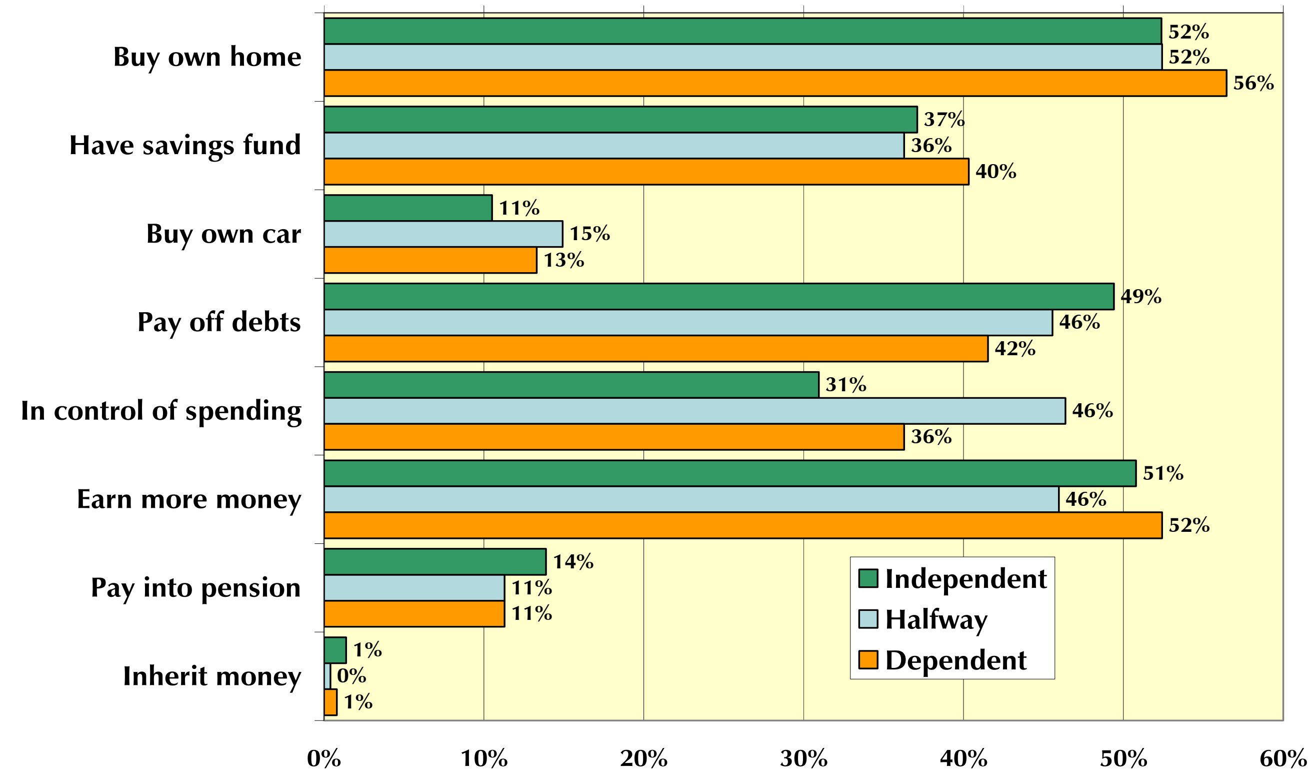
Figure 8. Potential barriers to independence



There was also a similar consensus regarding the issue of financial security. While they might entertain an illusion of financial independence, young people had more realistic ideas about what would be required to become financially secure. Owning one's own home, increasing one's income, paying off debts and having access to a savings fund were seen as the most significant hallmarks of financial security, as shown in Figure 9 below.

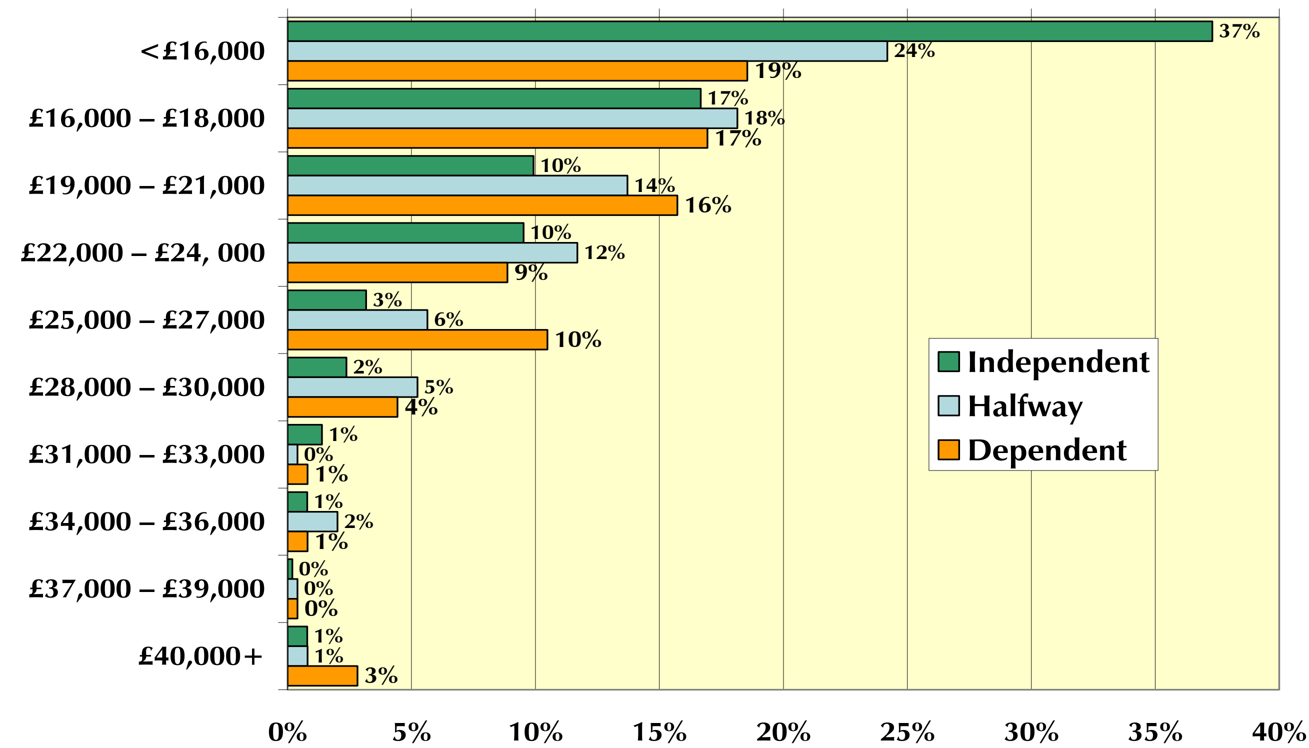
When asked what level of annual income would be, or had been, sufficient to provide a sense of financial independence, the largest group of respondents suggested less than £16,000. Those in the Independent group were twice as likely to select this low figure compared with those in the Dependent group.

Figure 9. Perceptions of the requirements for financial security



Dependents were the most likely to indicate that incomes of between £19,000 and £21,000, or between £25,000 and £27,000, would be needed, as shown in Figure 10.

Figure 10. Perceived income required for financial independence



Overall, these figures seem surprisingly low – especially the finding that the largest group of respondents thought that an income of £16,000 or less could provide them with financial independence when, as we have seen above, financial security requires buying one's own home and having money in the bank. This low assessment, however, was most typical of those respondents who were unemployed or studying part-time at university or college. Those who were undertaking vocational courses or apprenticeships were most likely (44%) to think that over £20,000 would be required to enable them to be financially independent. The majority of estimates, however, are still below the average wage in Britain which is currently just under £25,000 per year.

Despite the variations in estimates of what income would be required for financial independence, some interesting questions are raised by the findings. Do the 'Independents' feel independent because they are content with, or will be content with, less money than those who continue to see themselves as financially dependent on their parents? Is the sense of continuing financial dependence increased by possibly unrealistically high assumptions about what it takes to be independent? Our view is that both factors are probably at work here and that perceived financial independence is less to do with 'real' independence than it is with their expectations not only of the parental support role but also their perceptions of future needs and aspirations.

All of this reinforces the extent to which the historical notions of childhood and emerging adulthood that we noted in the Introduction have changed substantially – not only since Victorian times but in the past couple of decades. The idea that young people should be a net asset to families through their contributions to family income seems very outdated. The reality is, as we emphasised in *The Trust Fund Generation* report and what the data from this follow-up study show even more clearly, that parents need increasingly to budget for the needs of their offspring until they are way past the age at which, in the relatively recent past, they would have no longer been their financial responsibility.

6 Conclusions

This study highlights the fact that the sense of financial independence, or at least halfway towards independence, felt by three quarters of all young people in Britain today is largely bankrolled by their mums and dads. In reality rather than perception, today's 18 to 25 year olds are remaining increasingly dependent on financial support from their parents until later in life.

Investment of this nature in tomorrow's adults is not something that is likely to be repaid. University fees, help with rent and bills – these are things that young people now see as part of ongoing parental responsibilities and obligations, for as long as it is needed.

While many of those young people who declare themselves to already be financially independent see no contradiction in also expecting support from their families, they do entertain a realistic view of what 'true' independence might look like in the future. It involves those traditional steps in life of getting a sufficiently well-paid job, having some money in the bank and, of course, moving out of the parental home – the latter being something that today's emerging adults, and men in particular, seem increasingly loathe to do.

The cost of ‘true’ financial independence, however, might not be that high for some. For a quarter of young people, less than £16,000 per year would be, or already has been, enough. Of those who already see themselves as being financially independent, that figure rises to 37%. The minority of young people who recognise their financially dependent situation, however, tend to have higher ambitions. Nearly 40% of them think that a yearly salary of between £20,000 and £30,000, more in line with the national average wage, will be needed before they can truly feel that their parents have been let off the financial hook.