



A conversation worth having: parents, children, saving and investing

Capital Group's Wisdom of Experience investor survey explored the parent-child dynamic and what can be done to better prepare the next generation of Americans to be financially savvy.

- The survey of adult U.S. investors provides insight into the important conversations taking place between American parents and their children 12 and under, teenagers (ages 13 to 17) and young adults (ages 18 to 25). The conversation is usually initiated by mothers.
- There is a distinct hierarchy of money and financial behaviors, practices and life needs that parents discuss with their children at different ages.
- Generation X and millennial parents today begin teaching children earlier than did baby boomers.

In terms of who should teach children and young adults about financial matters, survey respondents ranked parents, schools and financial advisors as the top three sources. Employers ranked lower, and appear to be an underappreciated resource given the importance of 401(k) retirement savings plans for young people just starting their careers.

Some parents wish they had started teaching their children earlier – but often this is a lifelong learning process, and many are still at it. The survey also identifies five conversation-starters parents recommend for talking to children about money, saving and investing.

Capital Group, home of American Funds, is one of the world's largest independent investment managers focused on delivering superior, consistent results for long-term investors for more than 85 years.

Part I: A conversation worth having

Most Americans who are investing for retirement today wish that someone had shared advice on saving and investing with them when they were teenagers or young adults.

The main topics people said they would have liked to learn more about when they were younger are saving for retirement and 401(k) tips; advice on debt, credit cards and living within your means; and general knowledge about the stock market and how investing works. At 45%, the number of women who wish they had been taught more about retirement savings and 401(k) tips was noticeably higher than men (33%).

So how are Americans teaching their own children about saving and investing? It turns out there is a hierarchy of financial topics that parents discuss or plan to discuss with their children. Responsible credit and retirement saving behaviors and values are top tier, followed by investing and budgeting practices. Conversations about more specific financial issues and life moments ranked third.

And who is doing the talking? Mothers talk more about money and financial topics with their children than fathers, and that includes everything from having good credit to starting to save early in life for retirement. They are in a statistical dead heat with dads when it comes to talking to their children about investing or buying a car. Interestingly, fathers are much more likely than mothers to answer that they are the primary investment decision-makers in their household (79% of fathers versus 51% mothers surveyed).

Parents' own childhood financial stresses may also shape the way they approach financial discussions with their children. Respondents who grew up in a financially unstable home are more likely to talk about financial topics across the board, but especially about making a budget (66%, compared to 54% who grew up in a financially stable home) and paying off loans (57% versus 43%, respectively).

Mom knows best

Which of the following money and financial topics have you talked about, or do you plan to talk about, with your child?

(Percentages indicate participants who selected a response when prompted to "select all that apply.")

	TOTAL (%)	MOTHERS (%)	FATHERS (%)
Tier 1 – Saving and financial responsibility (behaviors/values)			
Having good credit	69	76	62
Start saving early	67	70	64
Saving for retirement	67	69	65
Managing and avoiding debt	61	63	58
Tier 2 – Investing and budgeting (practices)			
Investing	56	56	57
Making a budget	56	60	52
Using credit cards	49	51	47
Tier 3 – Specific financial issues (life moments)			
Paying off loans	46	50	42
Buying a home	46	49	42
Having a will and inheritance plan	40	44	35
Purchasing insurance	38	44	31
Buying a car	36	36	37
Saving for college	35	38	33
Renting your first apartment	19	22	16

Part II: When do you start the conversation?

Parents have different conversations about money with children of different ages. As a rule, millennial and Gen X parents start or expect to begin these conversations with their children at earlier ages than did baby boomers. For example, 39% of millennial parents said they would start telling children at age 12 or younger to start saving early, almost twice the level of baby boomer parents (22%).

They talk about basics like making a budget, saving early and saving for college. The teen years are very important for conversations about having good credit, buying a car, using credit cards, avoiding debt and saving for college. Conversations about investing and saving for retirement come a bit later. Millennial and Gen X parents began or plan to begin conversations with their children in their teens or 20s, while most boomers saved those conversations for the 20- and 30-something years.

Other topics that tend to wait until the adult years are life necessities like having a will and an inheritance plan, buying a home, renting your first apartment, purchasing insurance and paying off loans. Moms tend to weigh in when children find their first job, get married, have a child or experience a serious illness. Mothers and fathers both participate in financial conversations when their children go to college or change careers.

Teen years are most important when talking to children about saving

When did you begin, or do you expect to begin, talking to your children about each of these topics?

	TEENS (%)	12 YEARS OLD OR YOUNGER (%)	20s (%)
Saving for college	47	32	9
Start saving early	42	30	21
Making a budget	52	19	22
Managing and avoiding debt	46	16	31
Having good credit	50	13	31
Investing	36	13	39
Using credit cards	58	11	26
Buying a car	60	8	24
Renting your first apartment	39	8	47
Paying off loans	32	8	41
Saving for retirement	26	7	50
Buying a home	20	7	55
Purchasing insurance	32	6	51
Having a will and inheritance plan	12	6	40

Lifelong learning

Most parents think of the financial relationship with their children as a lifelong process. Overall, 30% of parents wish they had started teaching their children about financial matters earlier in their lives. That said, it's never too late to learn. Thirty-nine percent say they are still teaching their children – and that includes more than half (51%) of Gen Xers and even 28% of baby boomers. And 61% of millennials are still teaching or haven't yet started teaching their children because they are too young.

Part III: Who should have the conversation?

Parents of all ages believe that teaching children about financial matters should begin at home. That's true of three-quarters of boomers (79%) and Gen Xers (73%), and over half (55%) of millennials.

However, there's plenty of room for improvement. When asked to rate their success in teaching their children about financial matters, more than two-thirds (69%) say they've only been somewhat successful.

In terms of who should teach children and young adults about financial matters, parents, schools and financial advisors ranked as the top three sources.

Teaching children about finances – okay grades but room for improvement

How successful do you think you have been in teaching your children about financial matters?

	TOTAL (%)
Completely successful	19
Somewhat successful	69
Not very successful	8
Not at all successful	3

Who should prepare our children?

When surveyed about who or what can play the most important roles in preparing teens and young adults (ages 18 to 25) to manage their saving and investing needs, an interesting picture emerges. Parents, schools and financial advisors ranked as the top three choices.

This is problematic given that most schools do not teach about savings and investing, and many Americans do not use a financial advisor. Moreover, employers seem to be an underappreciated educational resource given that many young adults will get their first experience saving and investing through an employer-sponsored 401(k) retirement plan.

Parents, schools and financial advisors are expected to teach saving and investing

Who or what is most important in preparing teens and young adults to manage their saving and investing?

(Percentages indicate participants who ranked a response in their top three.)

	TOTAL (%)
Parents	83
Schools	51
Financial advisors	41
Friends and extended family	38
Employers	35
Online tools and apps	31
Articles and publications	21

Part IV: Five conversation-starters for teaching children about saving and investing

Parents say the most valuable advice to share with a child, teen or young adult to help them get a good start in their financial lives is to live within their means, begin saving early and regularly, and to take advantage of an employer's 401(k) program. This is closely followed by managing credit card balances effectively and building a budget based on income.

39% of millennial parents said they would start telling children at age 12 or younger to start saving early, almost twice the level of baby boomer parents (22%).

1. **Live within your means.** More than half of parents (56%) selected this piece of advice as one of their top three recommendations for a child, teen or young adult.
2. **Start saving early and regularly.** Forty-three percent prioritize early saving behavior as a key for a good start in life, and this is closely aligned with the 46% who say young people should save regularly each month and with every paycheck (e.g., through their employer's 401(k) plan).
3. **Take advantage of your employer's 401(k) match.** Thirty-three percent ranked this among their top three pieces of wisdom, though boomers (45%) are much more likely than millennials (23%) to make this recommendation.
4. **Don't carry a credit card balance and manage credit effectively.** This was strong advice for 28% of parents, but boomers were twice as likely as millennials to select this (39% versus 19%).
5. **Create a budget based on percentage of income.** About one-in-five adults (21%) of all generations chose this as one of their top financial lessons for children.

Investment approaches for young adults

When asked more specifically about which investment approach young adults should use when starting out, investing in an employer's 401(k) plan is chosen by a definitive majority of respondents (71%). The second most popular is following a consistent investment strategy based on long-term objectives (41%), followed by using a financial advisor to build a diversified portfolio (27%).

Investors also recognize the benefits of a variety of investments, including individual stocks and bonds, funds that consistently outpace the market over the long term, index funds that track the stock market's performance and target date funds that align their investments based on age to retirement.

The lowest ranked approach by far would be for young adults to adapt their investment strategy based on near-term market conditions (8%), although millennials were nearly four times likelier than boomers to choose a near-term investing approach (11% versus 3%).

Best investment approaches for young adults

Which investment approach do you think young adults starting out should use?

(Percentages indicate participants who selected a response when prompted to "select all that apply.")

	TOTAL (%)	MILLENNIALS (%)	GEN X (%)	BOOMERS (%)
Invest in employer's 401(k) plan	71	63	70	80
Follow a consistent investment strategy based on long-term objectives	41	33	41	48
Use a financial advisor to build a diversified portfolio	27	27	22	32
Invest in individual stocks and bonds	19	20	25	12
Invest in mutual funds that do better than the stock market over the long term	19	17	20	19
Invest in low cost index funds that track the stock market's performance	19	17	21	17
Invest in a target date fund that reduces risk as retirement age approaches	18	21	18	16
Use an online financial tool to build a diversified portfolio	16	20	17	11

How the survey was conducted

The survey was conducted by APCO Insight, a global opinion research firm, in April 2018. The research consisted of an online quantitative survey of 1,202 American adults – 402 millennials (ages 21 to 37), 400 Gen Xers (ages 38 to 52) and 400 baby boomers (ages 53 to 71) – of varying income levels who have investment assets and some responsibility for making investment decisions for their families. The overall sample reflects national representation on key demographic measures according to the U.S. Census Bureau.

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