

# TURNING SEVEN

## BRITAIN'S SEVEN YEAR OLDS: THE VANGUARD OF THE 'TRUST FUND GENERATION'

1<sup>st</sup> September 2009

Prepared on behalf of The Children's Mutual

Prepared by Next Big Thing



**The Children's Mutual** is the Home of The Child Trust Fund and is the only UK company specialising exclusively in family-focused finance products. With a heritage dating back 128 years, we are now the choice of one in four parents for their child's Child Trust Fund and look after 700,000 Child Trust Fund accounts<sup>1</sup>.

We work tirelessly in partnership with parents and the wider family unit, midwives, the financial community, the media, Government and well-known high street and parenting names to champion the importance of saving little and often to help families secure their children's futures. [www.thechildrensmutual.co.uk](http://www.thechildrensmutual.co.uk)

**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 adding a further sum to the fund when they reach the age of seven, and is currently consulting on a third payment into Child Trust Funds.

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.

**The Turning Seven Payment** - On 22 March 2006 the then, Chancellor Gordon Brown MP, announced in his Budget that all children eligible for the Child Trust Fund will receive a further Child Trust Fund payment at age 7 of £250 with children from lower-income families receiving £500. Eligibility for the second payment is the same as that for the initial payments. It is being given to every child born on or after 1 September 2002, living in the UK and being the subject of a Child Benefit award on the child's seventh birthday.

Children in families who qualify for full Child Tax Credit with an income below the threshold on the child's seventh birthday will qualify for the higher total payment of £500 at age seven. The HMRC holds details of the registered contact for child benefit. The Government will issue a notification of the extra payment to the registered contact. The money will be placed directly into the registered CTF account.

**Next Big Thing** predicts consumer change patterns and locates new markets across a range of industries and demographics. The company writes trend updates and future strategy reports, runs focus groups and trend workshops, and organises field surveys. Blue chip clients range across entertainment (BBC to BSkyB, Universal Music to Virgin Radio), technology (AOL to Siemens), finance (Barclays to HSBC), food (Aga to Budweiser) and advertising (Mindshare to Mediacom). [www.next-big-thing.net](http://www.next-big-thing.net)

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<sup>1</sup> as at Sept 2009

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## **INTRODUCTION**

In September 2009 the oldest children with Child Trust Funds will reach the age of seven and receive their first 'top up' payment of £250 from the Government. From September 2020 these first accounts will mature as the children reach 18, allowing holders access to their funds. But what are the attitudes of today's seven year olds – the vanguard of the 'Trust Fund Generation' – towards money? What will the future hold for them and their parents financially? The impact of their first seven years on a child is enormous. Those years can affect attitudes and behaviours throughout the rest of their life. As the saying goes: "Give me the child until they're seven and I'll show you the man<sup>2</sup>." But what impact have those first seven years had on today's seven year olds when it comes to money? The Children's Mutual commissioned The Next Big Thing to find out. This was done using a tripartite research campaign: an online poll of 1,988 parents of seven year olds; focus groups and indepth interviews with parents, seven year olds and primary school teachers; and secondary desk research to determine relevant socio-economic trends. While the seven year olds in this research don't have Child Trust Funds, as the age of seven is recognised as such a crucial watershed in a child's education and thinking, it was necessary to ascertain the change in thinking of children at this point in their life.

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<sup>2</sup> Attributed to many sources, from Vladimir Ilyich Lenin to the Jesuits, but probably apocryphal

## SUMMARY OF FINDINGS

Today's young Britons appear to be developing a more responsible attitude to money than previous generations. Almost two thirds of the parents we polled believe their children are better informed about issues such as finance than they themselves were at that age. One in five think today's world is making their child more aware of financial issues than they were. Almost half say their seven year olds have saved up for something specific and almost as many do so regularly.

This increased responsibility has developed to a great extent as a result of certain socio-economic trends that have taken place in the years since they were born. Increased pressures as they were growing up, from world events to school curricular, have helped develop a greater caution, perhaps even prudence, as regards the future. So too has the growth of financial education. Children today have more access to information about money matters than ever before: and more learning opportunities too. As formal financial education at school, under the supervision of teachers, has increased, there has also been a growth in informal, experiential education: education they have 'picked up' from their parents and their environment. Parents are trying to use interactions with money as a way of educating their children, as described later in this research. Almost half of parents in our poll claim to have told their seven year old to be careful with how they spend money, and two in five have talked to their seven year old about what to do with a gift of money. Many are using pocket money to help educate their children. Well over a third of seven year olds have done household chores for money, and a quarter have received money in exchange for good behaviour, doing homework and so on. Meanwhile, some of the new day-to-day experiences of today's pre-Teens are having a positive effect on their financial attitudes. A quarter of seven year olds have traded in something in exchange for something else: for instance trading in an old video game in part exchange for a new one. And more than one in five has played a game video and/or computer game that involves earning or saving money.

Last, but by no means least, the trend from a strong to a weak economy appears to have had a positive impact on children's attitudes to finance. Unlike the Millennials (aged 18-27), whose formative years coincided with a period of economic prosperity, the 'Trust Fund Generation' have not been given 'anything they want': at least not since the beginning of the economic downturn. Many parents of today's seven year olds were perhaps relatively imprudent in their financial behaviours during their children's early years: over half of the parents polled admit that they may have spent or borrowed too much money in the last ten years. But they have typically taken a more responsible attitude towards money since the 'credit crunch'. Almost two thirds (63%) of the parents in our poll claim to have cut down on what they are spending on their child recently, be it on luxuries or necessities. Well over a third (38%) of parents have told their seven year old they will have to cut back on some things such as holidays or a new car. And almost 60% claim they are saying "no" to their child more frequently as regards spending. Although perhaps upsetting, or at least frustrating, for children in the short term, such cut backs look set to have a positive financial impact in the long term. Almost two thirds of the parents we polled believe the economic downturn has made their child more aware that money doesn't "grow on trees". And a similar number think that growing up in the current recession will have a positive effect on their children's attitude towards money in the future. A third think it will make their child more aware about money and a similar number think it will make them more financially responsible. Add to this the money provided by the Child Trust Fund and the future for the vanguard of the 'Trust Fund Generation' looks positive.

But there are still concerns. Although today's seven year olds may be more responsible, many of their parents still have a long way to go. They are still underestimating what their child will cost them in the long run. And, although over three quarters of those we polled think it is a good idea to put some money aside each month for their child's future, less than one in five actually do so. When we asked our respondents to choose which out of a series of possible financial scenarios most closely resembled their own, less than 19% said that they put aside a sum each month. And even fewer have "set aside a lump sum in a bank or building society for my child's future."

But many of those parents we spoke to appear determined to be more prudent in future: spending less and saving more. If this becomes a reality, then increased parental saving, the Trust Fund Generation's more responsible attitudes, and the maturing of Child Trust Funds, may make 2020 a year to celebrate<sup>3</sup>.

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<sup>3</sup> The Child Trust Fund is already having a positive effect with nearly 28% of actively opened accounts being topped up regularly by families (TISA June 09). At The Children's Mutual this figure is just under 38% of actively placed accounts.

## **MAIN FINDINGS**

### **1. THE PAST**

To show how and why today's seven year olds have developed the way they have, and to predict with any accuracy how they will act in years to come, it is first necessary to understand the socio-economic trends that have impacted upon them in the first seven years of their lives. Such influences, along with those experienced and passed on by their parents, help shape their attitudes and behaviours: not just in the present but in the future too.

The age of seven is an important time for a child. By the age of seven, children generally have some understanding of money. Over three quarters (80%) of those parents we polled believe this is true of their seven year old child.

*"Our research demonstrates that, even by the age of seven, children are aware of the impact of money in their lives<sup>4</sup>."*

*"They're starting to talk about money at this age. There's lots to buy. Their friends all have things." Mark, father, Purley*

It is typically at this age that a child's understanding of money really begins to take shape. Jean Piaget, the father of modern child development theory<sup>5</sup>, divides a child's development into four stages. He sees the age of seven as the first year of the third stage: the Concrete Operational Stage (7-11 years). It is only here that their ability to understand the complexities of money can take place. This is the stage when children first start to think logically, are able to go from a specific experience to a general principle, to practice concrete problem solving, consider the world around them rather than just themselves, and to understand the principle of saving.

Of course not every seven year old child will have the same attitude towards money. Their thinking will be heavily influenced by outside events. Children in their earliest years absorb huge amounts of data: nearly 50% of a child's learning occurs in the first four years of life<sup>6</sup>. Environmental factors are key determinants: a child's social and economic circumstance, the attitudes of their parents and peers, and so on. The fluctuations in economic and social landscape that take place when a child is growing up (and even before) can have a long term effect upon their attitudes and ultimately their behaviours. These fluctuations affect children indirectly: the financial experiences of their parents affect how the child is brought up. It also affects them more directly: in the amount of money spent on them, and in what they absorb from the media and their peers. The parents we spoke to in the focus groups certainly believed that the economic situation when they and their parents were growing up had an effect, and that it would on today's children too. And well over three quarters (84%) of the parents polled think that growing up during a recession will have an influence on their child's future financial behaviours.

Even within a single generation, of course, each child will have different experiences. Some will have grown up in a time of easy credit, others in times of recession. Some will have progressive parents, others more conservative ones. However, we can still draw a number of overarching points. The next two sections of the report will explore the socio-economic trends that have influenced the financial attitudes and behaviours of today's seven year olds and their parents.

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<sup>4</sup> Wendy van den Hende, Chief Executive, Personal Finance Education Group, October 2007

<sup>5</sup> Jean Piaget's theory of the Stages of Cognitive Development

<sup>6</sup> The National Literacy Trust, 2007

## 1.1 PAST TRENDS THAT HAVE AFFECTED TODAY'S PARENTS

Parental influence has a huge impact on young children. The attitudes and behaviours of their parents will have a lasting influence upon their own. Different parental attitudes help define the differing attitudes within each generation. To understand the impact these will have on today's seven year olds, it is first necessary to understand what the financial attitudes and behaviours of their parents are, and how they differ from previous generations.

The parents of today's seven year olds typically come from Generation X (28-44 years)<sup>7</sup>. Economic trends in recent decades mean Generation X grew up more likely to be spenders or borrowers than savers. Generation X's own parents' and grandparents' generations were typically more 'responsible' in their attitude to money. The 'War Generation' (64-79 years) grew up at a time when money was generally scarce, and children typically began earning at 16 or 18 and had a 'job for life', debt was frowned upon and financial responsibility admired. The Baby Boomers (45-63 years) grew up in a time of relative wealth and increased education, so were often more interested in 'fulfilling' careers than financially lucrative ones and less worried about 'saving for a rainy day'. With the celebration of 'youth' they were also perhaps less interested in 'adult' issues such as finance. But like their parents, they too grew up wary of debt.

But Generation X were not wary of debt. They are sometimes known as 'Thatcher's Children', because they grew up when Margaret Thatcher was Prime Minister and absorbed the individualistic and 'go-getting' attitudes she espoused. The era they grew up in was a time of comparative wealth, despite a couple of short economic downturns. With money in relatively good supply, their parents would generally not have felt the need to warn them to be prudent: indeed none of those we questioned remembered them doing so. They would typically have felt less anxiety and pressure than today's children seem to do. Coming of age in a time when credit was 'easy' and possessions were linked very closely to status, they were the first generation to take to large-scale credit en masse. That is one reason why debt can be taken for granted today in a way that would have been unthinkable for the War Generation; or even many Baby Boomers. Excluding mortgages and student loans, three quarters (76%) of households now have some debt, such as an overdraft, credit card or other loan. The average amount owed on these is over £8,300<sup>8</sup>.

The increasing value of their homes gave many in Generation X the confidence to feel they did not have to save. It is no coincidence that the UK savings ratio fell to its lowest level for nearly 50 years in 2008<sup>9</sup>. Many felt safe to borrow against their home: mortgage equity withdrawal rates rose to new highs. And the total value of UK card payments more than tripled between 1996 and 2006: from £87 billion to £321 billion<sup>10</sup>. In previous research carried out by The Children's Mutual, several of the Generation X parents interviewed considered their own generation to have "epitomised the 'greed is good' caricature of the 1980s, spending to excess with little thought for the future<sup>11</sup>." Indeed, more than half (56%) of the parents polled for our latest research admit that they may have spent or borrowed too much money in the last ten years.

*"For [Baby Boomers and their parents], the need to pay cash for everything and have no debts are fundamental beliefs. They were taught that money doesn't grow on trees. The mixed messages come with [Generation X's] willingness to borrow to achieve their goals<sup>12</sup>."*

But the last year has seen economic changes that may signal the end of these 'easy credit' or 'spendaholic' years, at least for the foreseeable future. Now, it is proving harder economically for parents in the UK: from fuel price rises to stabilising house prices. One in four parents claims their household income is not enough to pay the bills each month. 27% of parents think they will not be able to pay the bills in six months time, one in ten fear the main breadwinner will be made redundant in the next six months, three quarters of them

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<sup>7</sup> The average age Britons have their first child in recent years has been approximately 30, so those whose first child is seven are likely to be approximately 30-40. But, although having a single child is increasingly common today, for some their seven year old might be their second or third child, so they will be older. The average age of the parents of seven year olds in our survey is 33.

<sup>8</sup> Family and Parenting Institute, November 2008

<sup>9</sup> Mintel, October 2008

<sup>10</sup> APACS, July 2007

<sup>11</sup> The Children's Mutual / SIRC, 'Coming Of Wage', 2007

<sup>12</sup> Virginia Dowd, Founder and MD, Money Solutions (Notebook Magazine, October 2005)

have debts in the shape of credit cards, loans and overdrafts and a quarter have borrowed money from their own parents in the last year<sup>13</sup>.

*"It's become more difficult in the last six months. Christmas was particularly tough. Bills are going up, salaries aren't." Ashley, father, Purley*

## 1.2 PAST TRENDS THAT HAVE AFFECTED TODAY'S SEVEN YEAR OLDS

Today's seven year olds, the vanguard of the Trust Fund Generation (those born from 1 September 2002), are growing up in different circumstances to their Generation X parents. They also grew up differently to their elder siblings, the Millennials, (who grew up between Generation X and the Trust Fund Generation):

Three key socio-economic trends influenced the Trust Fund Generation's formative years. The first was a growth and then decline in parental spending. The second was a rise in stress levels and the growth of a 'climate of fear'. And the third was an increase in formal and informal financial education. We will look at each one of those in detail now.

*"It is our view, supported by both the qualitative and quantitative data, that there has been a sea change ... over the past couple of decades. Children are now growing up in an age of cautious prudence - quite differently from their parents whose attitudes to money were formed in the 'loads of money' days of the Thatcher era<sup>14</sup>."*

### 1.2.1 AN ECONOMIC ROLLERCOASTER

Today's seven year olds have already lived through two very different economic situations in their short lives. When they were very young, money was comparatively plentiful. Their parents were typically happy to buy them what they wanted. The parents we polled believe they have given their child more treats than their parents did (28% think 'more' compared to just 16% who think 'less'). As money was 'always available', they would have grown up with little appreciation of the value of it. Meanwhile, they were targeted by more and more product marketing, and a growth in the range of products manufactured for the children's market: from video games to mobile phones. Children in the UK were spending huge amounts in the mid-2000s. They were estimated to have spent £3.9 billion in 2005 and £4.2 billion in 2006<sup>15</sup>.

*"They don't know the value of stuff. It's shiny so they want it." Anne-Marie, mother, Leeds*

*"They hear about it on telly and ask for it. There's always someone at school who's got something they want. There's so much peer pressure." Tony, father, Purley*

*"There's more marketing, more ads, more conversation about money on the playground." Fiona, mother, Leeds*

The Millennials were the main recipients of this. With most of them reaching their teens before the latest economic downturn, they suffered fewer financial hardships, and were typically less aware of the value of money, when they were seven than today's seven year olds.

*"My older one's got that 'live for today' attitude that I have. I've taught her that. It used to be 'I've got money, so you can have whatever you want'. It's my fault she's the way she is. My seven year old's different." Shaun, father, Leeds*

*"My teenager is less accepting or understanding than my seven year old if I say no." Fiona, mother, Leeds*

So what has caused the difference between the Millennials and the Trust Fund Generation? Much of it is down to the economic trends of the last 18 months. As described above, most parents have had to make cutbacks over the last year, and their children will have felt

<sup>13</sup> Family and Parenting Institute / YouGov, 'Families & The Credit Crunch 2008', November 2008

<sup>14</sup> The Children's Mutual / SIRC, 'Coming Of Wage', 2007

<sup>15</sup> Childwise, 2006

some effect from these changes. They will have noticed cuts on those products bought for them (clothes, toys) and those bought for the family (car, holidays). Almost two thirds (62%) of the parents in our poll claim to have cut down on what they are spending on their child, be it on luxuries or necessities, because of the current economic downturn. Well over a third (38%) of parents in our poll have told their seven year old they will have to cut back on some things such as holidays or a new car. And almost 60% (59%) of parents in our poll claim they are saying "no" to their child as regards spending more since the economic downturn. 30% of parents have been forced to cut back on giving pocket money, and 59% admit to finding it harder to give their child pocket money. Britain's 'Pocket Money Purse' has fallen by as much as £628 million during the economic downturn<sup>16</sup>. This was backed up by our focus groups.

*"Up until 8 months ago it was 'have what you want' but now we have to say 'no' more." Shaun, father, Leeds*

*"I used to give in to everything they asked for in the sweetshop, but now I can't afford to." Jo, mother, Purley*

Although parents saying 'no' will affect all children, it will have most impact on those still in their formative years. The younger a child experiences events, the greater the psychological impact typically is.

*"The recession is likely to have a profound impact on today's seven year olds. If a child has only ever known one way of life, where money and resources are plentiful, then it comes as a real shock if they suddenly become scarce"<sup>17</sup>.*

Children are likely to have been affected in non-material ways too. 29% of British parents admit they are arguing over their family's finances<sup>18</sup>. And a third of parents are suffering the stress of sleepless nights because they are worried about money. Meanwhile, 70% of UK parents say money is a more regular topic of conversation at home today than it was 12 months ago<sup>19</sup>. More than three-quarters of parents (77%) admit that they would normally try to avoid exposing their children to money concerns<sup>20</sup>. But one in five (20%) of the parents in our poll admit to having expressed financial worries to their seven year old.

*"Children whose parents experience a lot of stress are significantly less satisfied with their lives than children whose parents take life easily. Parents' suffering has a long term impact on a child's emotional well-being, and fathers' distress levels are particularly crucial in determining a child's satisfaction with life"<sup>21</sup>.*

*"We keep mentioning our money worries all the time. I'm sure it will sink in." Sharon, mother, Purley*

### 1.2.2 INCREASED PRESSURE

Another trend is an increase in the general levels of stress that today's children were typically subjected to in their early years. These range from earlier testing at school to fears over world events. Almost three quarters (71%) of the parents we polled consider the world has become a more pressured place than it was when they were growing up. A third (34%) of them think today's world is making their child learn about serious issues earlier than previous generations. Today's seven year olds were born between 9/11 and 7/7 and have never known a time before environmental fears. Large scale threats during their formative years such as terrorism and global warming will have contributed to feelings of anxiety. Just 14% of teenagers globally agree with the statement "I think the world is becoming a better place"<sup>22</sup>. And they are feeling danger closer to home too. For instance, almost half of all 10-15 year olds have had property stolen from them at school<sup>23</sup>. Their parents' attitude to safety is likely to have accelerated children's fear of the 'outside world'. Generation X were among the first 'latchkey kids': having to 'fend for themselves' after school until their parents came home from work. As a reaction they are perhaps more concerned as parents about ensuring the safety and happiness of their own children. This has led

<sup>16</sup> Personal Finance Education Group / Populus, April 2009

<sup>17</sup> Laura James, author, 'Tigger On The Couch', June 2009

<sup>18</sup> Family and Parenting Institute, November 2008

<sup>19</sup> Personal Finance Education Group, October 2008

<sup>20</sup> Personal Finance Education Group, October 2008

<sup>21</sup> Institute of Education, March 2007

<sup>22</sup> BBDO 'Gen World: the New Generation of Global Youth', 2006

<sup>23</sup> National Centre For Social Research 'Young People in Britain', 2005

to an element of 'cotton-woolling' of this generation. For instance, 70% of parents today won't let their pre-teen children play outside unsupervised<sup>24</sup>. Perhaps unsurprisingly it appears that children today are typically quite 'anxious'. Indeed, levels of anxiety among teenagers rose by 75% from 1980 to 2006<sup>25</sup>.

*"There is a lot of pressure on children today. Many children we see are quite inward and quite stressed. They are learning about things earlier. And their parents want them to achieve." Andie, teacher, Nottingham*

### 1.2.3 FORMAL EDUCATION

Another trend that has made children aware of the value of money earlier is the growth of financial education. Today's seven year olds have more access to information about money matters as they're growing up than ever before: and more learning opportunities too. Almost two thirds (62%) of the parents in our poll believe their children are better informed about issues such as finance than they themselves were at that age. Their financial education has taken two forms. Formal financial education at school under the supervision of teachers has increased. And there has also been a growth in informal, experiential education: education they have 'picked up' from their parents and their environment.

Many schools, including primary schools, have been including elements of personal finance education in their curriculum since 2000. The National Strategy for Enterprise Education has made approximately £60 million of additional funding for financial education available to schools each year since 2005. The £11.5 million financial education programme 'My Money', introduced in 2008, will provide a "joined up approach to financial education from when a child first starts school, through the transition to working life or further and higher education"<sup>26</sup>.

*"We talk about money a lot in primary schools today. We talk about money more in Maths. We talk about the moral issues surrounding money too: charities and what people spend their money on in PSHE (Personal Health Education). And we talk generally about the money that comes into schools such as dinner money. Recently we have even allowed children to run the snack stall." Lynne, teacher, Nottingham*

Perhaps most importantly, the way that finance is taught has changed in recent years. Primary schools have introduced more 'real world' examples into their maths classes: exploring how money can be used in shops and so on. This will have made financial understanding something that children can relate to: making it of more interest, and ultimately more likely to be absorbed.

*"What children understand is stuff they can relate to, stuff they've dealt with themselves. In all maths and science classes now there's a big emphasis on problem solving in real life. And of all the topics we deal with in this way, the one they most easily relate to is money. Measuring cylinders or rulers are much more abstract for them: they don't need to know what the volume of anything is. But most kids do have money to spend, so it's something they're interested in." Laura, teacher, Nottingham*

*"What do I like at school? Maths! We do 'problems' - like what do sweets, toys or food cost." Sam, seven, Purley*

### 1.2.4 EXPERIENTIAL EDUCATION

Experiential education is the way that children learn about money from their interactions with it. For instance, having to save up their own money for something. Children can learn about finance ambiently from such diverse experiences as parental discussion, pocket money, using virtual money in video games, and even mobile phone or debit card ownership. Such interactions help children understand the value of money: sometimes even better than more 'formal' education can.

*"You understand more about money if you handle it yourself. Like buying games with your own money. If the money doesn't pass through your hands, you're going to have less understanding of the value of it." Laura, teacher, Nottingham*

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<sup>24</sup> Entertainment Rights, November 2007

<sup>25</sup> Association of Psychiatry, 2004

<sup>26</sup> Department for Children, Schools and Families, October 2008

*“Today’s seven year olds are getting more knowledgeable about money at an early age. There are a lot of ‘carrots’ given out which involve money. There’s more of a reward scheme. If you do that, you will get this reward. That’s different to how it used to be ... Children are learning about money earlier, handle it and are more involved with it earlier. Money is talked about on TV, in computer games. Most seven year olds are aware of the price of things today: sweets, toys, books, food. Much more so than when I was at school. I wouldn’t have known the price of anything at that age. They are far more aware of the value of money. And this is different to children even five years ago.” Andie, teacher, Nottingham*

*“If they have to pay for it, it means more to them. They think about the value of it more. If they ask for something and you say ‘you’ve got birthday money left, you can buy it out of that’ and they work out how little they’ll have left afterwards, they’ll often say ‘oh I don’t want it now’.” Sharon, mother, Purley*

Parents’ input will have a big influence on children’s financial attitudes and behaviours. Almost two thirds (65%) of the parents we polled believe their children pick up information about money from them compared to just a third (32%) who think they get it from teachers. Parents’ involvement in their children’s financial education has grown in recent years. Generation X parents are sometimes referred to as ‘Helicopter Parents’ (because they constantly ‘hover’ over their children) or ‘Heavy Meddle Parents’ because of how heavily involved they have become in their children’s lives and how much responsibility they take. Over two thirds (67%) of those polled think that they themselves are responsible for their children’s financial education. Only slightly more than half that number (39%) believe that schools are responsible and less than a quarter (20%) that the Government is. Just 14% think it is the media’s responsibility and 12% that it is society’s generally.

*“You have to start educating them at some stage. The Government have some responsibility: it’s partly their fault we’re in this economic situation. But really it’s your place to teach them. It’s you they come to for the money.” Mark, father, Purley*

*“There is a lot of pressure from parents. They’ll ask if there’s any homework we can give their kids now – and that’s at primary school!” Joanne, primary school teacher, Leeds*

This attitude is encouraging parents to speak to their children about money: more so, typically, than their parents or grandparents did. Almost half (43%) of parents in our poll claim they have encouraged their child to save money for something they may want in the future. In one recent global poll, 78% of parents worldwide claim they teach their children how to save money; 72% how to compare prices to get the best deal; and a quarter how to use a bank account or credit card. Globally 23% of parents begin teaching children about financial responsibility as soon as their children start asking their parents to buy things for them, while another 23% begin their children’s financial education between the ages of five and eight<sup>27</sup>. Over two thirds (68%) of parents polled claim to have spoken to their child directly about money by the age of seven in order to try and encourage a responsible and positive attitude towards it.

This has coincided with a gradual democratising of the parent/child relationship. War Generation parents rarely involved their children in their lives: typically making decisions for them rather than with them. The Baby Boomers had a slightly more democratic attitude, and the influence of child psychologists such as Dr Spock, meant parents and children ‘bonded’ more, but there was usually still a ‘distance’ between parent and child. Generation X typically have a much more ‘equalised’ relationship with their children, seeing decision making as a flatter hierarchy than their own parents or grandparents did. It is possible that those parents who were ‘latch key kids’ themselves may in some cases feel they lacked attention from their own parents, so will provide more of it to their children. The parents we polled believe they are more democratic with their children than their parents were with them. 26% negotiate more with them when it comes to money matters. A third (32%) talk to them “as an equal” more. 22% share their anxieties more with them. As explored above, the economic downturn is accelerating this trend, and children appear to be responding positively. 66% of teens consider their mothers a positive role model and 50% consider their fathers to be one<sup>28</sup>, while 78% of children look to their parents for financial advice<sup>29</sup>.

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<sup>27</sup> Synovate, February 2007

<sup>28</sup> The Sunday Telegraph, December 2007

<sup>29</sup> Personal Finance Education Group, September 2008

*"Relationships between children and parents have become more 'democratic', eroding even further the boundaries between the age sets<sup>30</sup>."*

*"You reason with them. It's a compromise. You're not saying 'yes' or 'no' but 'if.'" Sharon, mother, Purley*

*"With my dad, if I didn't eat my brussel sprouts he'd make me eat them for tea. I can't do that with mine." Mark, father, Purley*

*"I 'trade'. So if I see something that I want but I don't have any money, I'll ask my mum to buy it and then when I get my pocket money she takes it out of that." Jack, seven, Purley*

Like today's primary school maths, parents' financial advice has become much more occasion-led and interactive in recent years. Almost half (44%) of parents in our poll claim to have told their seven year old to be careful with how they spend money on occasions such as school trips or days out with friends. Two in five (40%) have talked to their seven year old about what to do with money on occasions such as when they have been given a gift of money from their grandparents.

*"You start talking to children pretty young about money 'cos they ask for things in a shop and you sometimes have to say 'no' and they say 'why' and you say 'because it costs money and it's a waste', and then you'll have a discussion about why not. "*  
*Maria, mother, Purley*

*"You don't actually sit them down and get a blackboard out. The time you teach them is when, say, you reach a time of ingratitude. When they're not appreciating something you'll say 'do you know how much it cost me to buy that and do you know how little I had when I was your age?'" Ashley, father, Purley*

Parents have been increasingly using pocket money to try to educate their children about money. A growing number see pocket money and other financial 'handouts' as a way of teaching children to be financially responsible. According to research earlier this year by The Children's Mutual, 83% of UK parents now make their children 'earn' their pocket money: be it by 'being good', achieving some specified goal or doing chores. Whereas just 72% of today's parents had to earn it when they were children<sup>31</sup>. According to our poll, well over a third (40%) of today's seven year olds have done household chores for money, and a quarter (24%) have received money in exchange for good behaviour, doing homework and so on.

*"I spoil my son and a year ago I decided enough was enough and I started giving him pocket money with which he's got to buy things. I buy his clothes but he has to use his pocket money to buy things like sweets and magazines, and games he has to save up for and it's made a massive difference. He doesn't ask as much now. It's taught him the value of money. It's the best thing I've ever done." Joanne, mother, Leeds*

*"Sometimes I use my own money and sometimes I use my parents'. I get money if I wash the car or if I do the dishes." Sam, seven, Purley*

*"I give them treats not money. Treats if they pass a dance exam or something. As a reward. But you have to be careful. It can go too far. The other day when he dropped some toast on the floor and I told him to pick it up he said 'that'll be a pound' and I thought 'this has got to stop!'" Sharon, mother, Purley*

Today's seven year olds have also experienced other financial interactions at an earlier age. Several of the parents in our focus groups spoke about how their children were becoming more sophisticated in their interactions with money, as did some of the children themselves. According to the parents we polled, a quarter (25%) of seven year olds have traded in something in exchange for something else: for instance trading in an old video game in part exchange for a new one.

<sup>30</sup> BBC / SIRC, 'Life in UK Today', July 2008

<sup>31</sup> The Children's Mutual, May 2009

*"My seven year old goes to car boot sales. He knows he can find toys cheap there. He's so tuned in." Joanne, mother, Leeds*

*"I go to Game 'cos they do 'buy one get one free'. And you can find games cheap at Asda too." Jack, seven, Purley*

Technology may also have played a role in children's financial attitudes. It is certainly playing an increasing role in their lives. A quarter of UK five year olds have access to the internet in their room. One in three eight year olds has a mobile phone<sup>32</sup>. There may be understandable concerns about such technology, but it can actually have a positive impact when it comes to financial learning levels. Many video games today require players to save money: from Sims' salaries to Runescape's gold smelting to Club Penguin's points system. According to our poll, more than one in five (21%) seven year olds have played a game video/computer game that involves earning or saving money. This is giving them an early experience of using money in a safe and entertaining environment. So too is the increased use of mobile phones and pre-paid cards. Almost one in seven (15%) of the parents polled say their seven year old has their own mobile phone and almost one in eight (12%) say their seven year old has used some form of pre-paid debit card. Both of these products show the user how adding and subtracting money affects their balance.

*"I could see how computer games might make young children more knowledgeable and more responsible as regards money. We certainly use computer games more now to illustrate problem solving in our Maths classes. Having mobile phones too might make them more responsible. In the past, a child might have used the telephone at home for hours without thinking. But with a mobile there's a cut off and once their allowance has gone that's it. That could make them more aware about how money works." Lynne, teacher, Nottingham*

*"He'll say 'I've earned 20,000 credits in this game and I can buy this, this and this'. " Jo, mother, Purley*

*"Her mobile contract is paid every month but that's all. The rest of the costs, like calls, she pays for." Fiona, mother, Leeds*

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<sup>32</sup> Childwise, January 2009

## 2.0 THE PRESENT

All the socio-economic trends above will have influenced the financial attitudes and behaviours of today's seven year olds and their parents. For Generation X (28-44 years) parents it was the relative wealth and 'latchkey' status of their youth, and the easy credit of their adult lives. For the Trust Fund Generation it was greater anxiety levels, a strong then downturned economy and increasing financial education levels. But what impact have these actually had in practical terms on their financial attitudes and behaviours today?

### 2.1 PARENTS' FINANCIAL BEHAVIOURS TODAY

The economic downturn has generally had a negative impact on parents' financial situations. As explored above, many are suffering financially, either from lost income or rising prices. But it appears to be having a positive impact on their financial behaviours. Young parents across the country are starting to rein in their spending. 70% of Britons today are cutting back on their outgoings due to the economic downturn across a range of sectors: from cars to holidays. Even those who have not yet been materially affected are in many cases cutting back on their outgoings. Around 30% of UK adults have cut back on their spending not through necessity, but through fear of how the recession might affect them in future<sup>33</sup>. Half (50%) of UK parents say that because of the recession they are implementing a range of cost saving measures. They are: accepting hand-me-downs from friends and family (48%); making homemade baby food instead of buying packaged food (40%); buying second hand clothes; toys and furniture items (39%); using re-usable nappies (25%), making their baby's clothes themselves (20%) and starting their child at nursery later than they had originally planned (15%)<sup>34</sup>. Half (49%) of the parents in our poll feel that they actually have a more responsible attitude towards money since the 'credit crunch'. Whereas less than half (43%) feel they have the same attitude and just 8% a less responsible one.

*"Thrift is definitely back, with parents telling us they are budgeting carefully, seeking out the bargain bin in the supermarket, driving less and buying second hand clothes<sup>35</sup>."*

*"If he leaves the water running or has the fan on when it's not necessary, I tell him off and say it costs money. I wouldn't have said that in the past, but now I'm seeing how much the cost of utility bills has gone up. Sometimes I don't even know I've said it: I've just gone into 'saving money mode'. " Mark, father, Purley*

*"Kids have had it good for so long. They haven't known what it is to go without. I think [the recession] is a good thing in some ways. It'll do them good. It's been a wake up call for everybody: us included. " Sharon, mother, Purley*

Many Britons are even starting to take up the savings habit again, after a long period of decline. UK households almost trebled the cash value of their savings to £11.7 billion in the final quarter of 2008: up from just £4.1 billion in the previous three months. In that same period, the proportion of incomes saved rose to 4.8% of disposable incomes: up from only 1.7% in the previous quarter, and from a low of -1.2% at the beginning of 2008<sup>36</sup>. Research suggests that up to two million people have been encouraged by the downturn to either start saving or save more. One in five (22%) sub-prime borrowers claim they will be concentrating on improving their credit rating over the coming months<sup>37</sup>. There is as yet no equivalent major decrease in borrowing, but figures suggest this is because many parents are having to use credit in the short term to navigate themselves out of a financial 'hole'. Once they have 're-surfaced', borrowing is expected to fall. In October 2008, 60% of adults stated that they would now be looking to cut down on borrowing and/or increase the amount they save in the coming year: up from just 55% in 2007<sup>38</sup>.

*"Economists predict that Britons' savings are likely to continue to soar in coming months, climbing back towards long term average levels of about 8% of income, as the recession persists<sup>39</sup>."*

<sup>33</sup> Mintel, April 2009

<sup>34</sup> Gurple.com, April 2009

<sup>35</sup> Mary McLeod, Chief Executive, Family and Parenting Institute, November 2008

<sup>36</sup> Office of National Statistics, March 2009

<sup>37</sup> Mintel, October 2008

<sup>38</sup> Mintel, October 2008

<sup>39</sup> The Times, March 2009

## 2.2 SEVEN YEAR OLDS' FINANCIAL BEHAVIOURS TODAY

Recent socio-economic trends appear to have had a positive impact on parents' financial attitudes and behaviours. But how have they affected those of today's seven year olds? Evidence suggests they have had a positive effect on them too. Anxiety, for all its negative effects, seems to have made them a little more serious and cautious - a positive impact when it comes to financial prudence. And the economic downturn and increasing financial education have made them more aware of the value of money.

### 2.2.1 GETTING SERIOUS

There are signs of a trend towards greater seriousness and responsibility generally among many of today's young people. This will have been at least partially driven by the increased fear and pressure described above. A third (32%) of parents in our poll think today's world is making their child more anxious or less carefree than previous generations. One in five (20%) think it is making them more sensible or responsible.

*"Even before the credit crunch I'd seen a difference in this generation. They were talking about more serious issues and taking a more 'adult' view of the world. This generation is more aware of the outside world, the adult world. And they're actually getting quite worried about it. They're much more aware than I was at their age." Lynne, teacher, Nottingham*

We have become used to seeing headlines about hedonistic teenagers, and we may have come across some ourselves. But research suggests these may be the exception not the rule. Baby Boomers and Generation X may have had hedonistic youths, and many may still be hedonistic. But those younger than them are showing signs otherwise. The number of 15-24 year olds saying "The most important thing in life is to have fun" fell from 84% in 1995 to 74% in 2005. And the number saying they "never want to be tied down to responsibility" fell from 40% in 1995 to just 20% in 2005<sup>40</sup>. The top markers of 'success' among UK teens today are firstly "being happy" and secondly "setting a goal and then reaching it"<sup>41</sup>. The top ranked life expectation for them now is "to make my family proud"<sup>42</sup>. Many children tell their parents off for smoking, drinking or not re-cycling enough. The proportion of 11-15 year olds who have never drunk alcohol rose from just over a third in 2003 to almost half in 2007<sup>43</sup>. Just a quarter of 16-24 year olds 'took a drug in the last year' in 2007 compared to a third in 1998<sup>44</sup>.

*"They're really competitive and want to do really well. They all want to get 'A's, whereas I'd have been content with a couple of 'C's. Sixth form and university is the norm and are considered the 'cool' thing to do. Of course there are still some kids who just muck about at school, but now they're the minority." Anne-Marie, mother, Leeds*

*"My seven year old's already mentioned university. And if a job is mentioned he'll ask "Is that a good job? How much do they get paid?" He's very focused." Joanne, mother, Leeds*

### 2.2.2 ATTITUDES TO FINANCE

There are indications that today's children may be taking a more 'responsible' attitude to finance than previous generations too. They certainly appear to be showing a greater financial capability. Such a capacity, as defined by Ofsted:

*"... requires an understanding of the key terms and ideas associated with personal finance, the skills to make sensible financial decisions and the development of appropriate attitudes to managing money"<sup>45</sup>.*

A majority of British children today are aware of the hierarchy of financial decisions in adult lives and that parents have different ways of getting money. 58% are clear that large purchases such as cars or houses would require borrowed finance from a bank<sup>46</sup>. "Being

<sup>40</sup> ROAR, 2006

<sup>41</sup> BBDO 'Gen World: the New Generation of Global Youth', 2006

<sup>42</sup> BBDO 'Gen World: the New Generation of Global Youth', 2006

<sup>43</sup> NHS Information Centre, 'Drug use, smoking and drinking among young people in England in 2007', 2008

<sup>44</sup> NHS Information Centre, 'Statistics on Drug Misuse in England 2008', 2008

<sup>45</sup> Ofsted 'Developing Financially Capable Young People', March 2008

<sup>46</sup> Personal Finance Education Group / HSBC 'What Money Means', October 2007

financially secure” is a concern for 70% of teens globally<sup>47</sup>. 75% claim to be more careful with the money they spend on themselves today<sup>48</sup>. Even parents, who in polls can often be quite disparaging about their children’s attitudes towards money, generally agree. One in five (19%) parents in our poll think today’s world is making their child more aware of financial issues than they themselves were. We asked our parents to say which of a series of statements most approximated their child’s attitude towards money. The highest percentage (30%) said their children think “money has to be earned”. 27% say their children “understand that there is a limited amount of money” and a further 19% have “some slight understanding of the value of money”. This compares to just 12% who say their children think “money grows on trees or is in unlimited supply” and 7.3% who do “not yet grasp the concept of money”.

*“They’ll say ‘dad can I have £2 to wash the car’. They’re like little entrepreneurs.” Mark, father, Purley*

*“Many seven year olds understand about value for money. In school fairs today, they will often go to different stalls and ask how much each costs and what you get for the money before they commit to spending on one. It’s like they’re shopping around to get the best value.” Laura, teacher, Nottingham*

*“Mine told me to turn the water off the other day. I was brushing my teeth and I’d walked away to check on the baby and my seven year old said ‘turn the tap off!’ It’s like he’s telling me, not me telling him.” Jo, mother, Purley*

*“If you use too much electricity you won’t have as much money to spend on food.” Grace, seven, Purley*

Economic trends will have contributed strongly towards these new attitudes. Almost two thirds (64%) of the parents we polled believe the economic downturn has made their child more aware that money doesn’t “grow on trees”. Almost one in eight (11%) of the parents in our poll claims their child has expressed financial worries to them.

*“Many children today are aware of the economic situation. The children I teach regularly use the phrase ‘credit crunch’ now. They’ve picked it up from hearing adults use it, or TV shows such as Newsround. They may not understand what has caused it, but they do typically know that it means they or their parents have to cut back on spending. Seven year olds today are definitely more responsible than they were before the downturn.” Lynne, teacher, Nottingham*

*“My parents don’t have as much money to spend now because of the credit crunch.” Joe, seven, Purley*

*“Whenever I turn the water on, my seven year old says ‘remember the credit crunch!’” Ashley, father, Purley*

*“My seven year old is asking about mortgages and banks now. And about how you pay it back. He hears about that on the news and wants to know. They ask what the ‘credit crunch’ is. They hear about things at school. Somebody’s dad loses his job, and you have to explain why he’s lost it.” Sharon, mother, Purley*

Speaking to parents who have raised children in both the 20<sup>th</sup> and 21<sup>st</sup> centuries, they say they have had to cut down on spending for their youngest in a way they did not with their eldest. They think this will make today’s seven year olds ultimately more responsible. They see their eldest children (and those elder children their friends have) as being less responsible with money.

*“The younger one understands more than my eldest. I’m not working at the moment and she’s more understanding about money. She backs down more.” Susan, mother, Leeds*

*“Ten years ago, the seven year olds I taught typically didn’t have any understanding of money, but now they definitely do. Five years ago, when we first had our snack bar, the children would spend all their money on snacks, but now they’re just having one or two items and saving the rest of their money. They’re more financially savvy and know what they can get for the money they*

<sup>47</sup> BBDO ‘Gen World: the New Generation of Global Youth’, 2006

<sup>48</sup> MTV, 2009

*have. They have more understanding of the value of money compared to children in the past: what they can get with it and how they can save up.” Lynne, teacher, Nottingham*

The impact of the economic downturn and the trend towards greater anxiety also appear to be encouraging children to save more than previous generations. In the past, Britain's younger generations were typically more carefree with their spending than their elders. But today UK 20-30 year olds are actually the most likely age group to say that they will be saving more and/or cutting back on borrowing, with around three-quarters of them planning to do so<sup>49</sup>. Over 90% of all young people claim that they save money in some way: 66% in a bank account and 39% in a 'piggy bank'. Over half claim they commit “most” of their money to “saving”. Several have two different accounts: one for saving and one for day-to-day spending money. Indeed, more than three quarters (76%) of 7-11 year olds claim that they are already saving. When asked what they would do if they didn't have enough money to buy something they wanted, one third suggested the best thing to do would be to save up for it. By comparison, just a quarter of parents of today's seven year olds say that they regularly put away money for their children<sup>50</sup>. According to the parents we polled, almost half (47%) of their seven year olds have saved up for something specific. And only slightly fewer (41%) do so regularly, for instance in a piggy bank.

*“When she gets birthday money it's ‘oh that's paper money, that's for the bank’.” Fiona, mother, Leeds*

*“Quite often she comes back from events with as much money as she went. She's realised she can keep any money she doesn't spend.” Tony, father, Purley*

*“If my parents give me money to spend at the fair I'll try and save some of it. They gave me £4 to spend at the last one and I spent £2 and came home with £2.” Faye, seven, Purley*

*“Children are thinking more about what they are going to do with their money. At the school fair, they'll say ‘I'm going to spend X on this, put Y in the charity box and save Z’. In the past they'd just have spent it. They didn't really think of its value. They just knew they could spend it, so they'd hand it over without really counting it. That's really changed now. Now we even have children who'll go home from the fair not having spent anything: and that never used to happen. Or on a school trip, even if we visit the gift shop, children often go home with money left over these days.” Lynne, teacher, Nottingham*

The growth in formal and experiential financial education appears to have had a good effect too. For instance, according to the parents in our poll, one in five (20%) of today's seven year olds have already calculated the cost of something in their head in a shop. Early bank accounts appear to encourage greater responsibility too. The Child Trust Fund should therefore further help children in these formative early years and beyond, especially if it is topped up regularly and children can see the amount they have changing over time.

*“My seven year old loves to save. He likes counting his money in his piggy bank and looking at his bank book and seeing how much he has in there. Looking at his savings book and comparing it with his brother and sister. And once it's in the bank he doesn't like to spend it.” Jo, mother, Purley*

*“I always put my birthday money in the bank. It's gone up to £189 now.” Jack, seven, Purley*

*“I used to have a bank account when I was young. That was good for me. It helped me understand about the value of money.” Jamie, father, Leeds*

The democratisation of the parent/child relationship is also likely to have helped children gain an earlier understanding of how money ‘works’ and thus the value of it. The more a child understands that money must be earned and if spent then must be earned again, the more they will become aware of the value of it: and the more it will encourage them to become financially responsible earlier.

<sup>49</sup> Mintel, October 2008

<sup>50</sup> The Children's Mutual / SIRC, ‘Coming Of Wage’, 2007

*“Democratisation and negotiation can have a positive effect. The more children are taught the value of money at an early age, the more responsible an attitude they are likely to have. The best way to teach children about money is to get them involved in household money matters from an early age. Taking them shopping, talking to them about how much things cost, and so on.”*  
Andie, primary school teacher, Nottingham

*“I’ve had conversations with them to make them understand that dad goes out long hours to earn money to pay for things. And that we’ve borrowed money off the bank to pay for the house and that has to be paid back. To try to make them more aware. My seven year old is more aware now. She understands that things cost money – and if she gets a gift she really appreciates it. My parents just used to say ‘no’.”* Maria, mother, Purley

### 3.0 THE FUTURE

So, recent socio-economic trends have already had a positive impact on seven year olds' current attitudes towards money. But how will that develop in the future? Will their responsible attitude towards money grow as they do? The next step is to explore what the future holds for today's seven year olds and their parents. And what impact the trends discussed above will have on their financial attitudes and behaviours in the long term.

#### 3.1 PARENTS' FINANCIAL FUTURE

When it comes to parental financial behaviours, one trend looks set to affect them negatively: the cost of raising a child is likely to maintain its upward curve. This is down to two factors: what they have to spend and what they want to spend. On the one hand the cost of what they have to pay for is increasing: food, clothing and so on. Across all stages of childhood and young adulthood, prices are rising. At the youngest end, the price of childcare is on the rise: 4.7 million families now require additional help with the cost of childcare<sup>51</sup> and half of UK parents now have to look to their own parents for child minding duties<sup>52</sup>. From 2010, state schools will be permitted to charge parents to send under-14s to previously-free after hours school. Parents are spending an average of £4,000 a year per child to finance their child through university<sup>53</sup>. Even when they get older there are still costs: 63% of 25-34 year olds still rely on their parents for financial help<sup>54</sup>. Meanwhile the cost of living continues to increase. Staple food prices rose by over £1,400 in the 12 months to August 2008<sup>55</sup>. It will cost the average British family nearly £2,000 more this year to live in the manner it did last year<sup>56</sup>. These factors combine to create a huge long term outlay. In fact, one source estimates that the overall cost of raising a child (from the day they are born up to their 21st birthday) has increased by over 33% since 2003. According to them, a child now costs its parents on average £194,000, which translates to £9,227 a year. And by 2012 it is predicted that it will cost more than £12,500 a year for each child raised<sup>57</sup>.

Meanwhile, the number of things that today's 'Heavy Meddle Parents' feel they 'ought' to do for their child is increasing, from activities to parties. So too is the amount of money they feel they ought to spend on each activity. Those we polled believe they spend more on their children than their parents did on them (32% more vs just 14% less). Parents are now spending more too, for instance, on activity groups and classes for toddlers: £650 a year on average, with 10% spending in excess of £1,000<sup>58</sup>. And they are spending £129 on average on a child's birthday party<sup>59</sup>.

*"There's so much more to pay for now. They do so much. After school clubs and so on. And it's expected." Sharon, mother, Purley*

*"The cost of a Prom today? £25 for spray tan, £30 for the limo, £40 for the dress ..." Anne-Marie, mother, Leeds*

So how will they pay for all of these things? That is a question many parents are anxiously asking themselves today. 26% of British parents are 'very concerned about having enough money to support their children'<sup>60</sup>.

*"You want to feel you'll always have the money to help them out in future if they need it. That you've tucked enough away. "*  
*Ashley, father, Purley*

<sup>51</sup> Institute for Public Policy Research, June 2006

<sup>52</sup> Family and Parenting Institute, November 2008

<sup>53</sup> NUS / HSBC 'Student Experience Report', January 2007

<sup>54</sup> The Children's Mutual / SIRC, 'Financial Independence', 2008

<sup>55</sup> MySupermarket.co.uk, August 2008

<sup>56</sup> Uswitch, November 2008

<sup>57</sup> LV, January 2009

<sup>58</sup> Talking Tots, December 2008

<sup>59</sup> Haribo, June 2006

<sup>60</sup> The Children's Mutual / SIRC, 'Coming Of Wage', 2007

Those who are not concerned yet perhaps should be. A quarter of parents claim they have had to make significant changes to their lifestyles to afford to raise their children. Over a third (36%) of parents feel they underestimated what the real costs of bringing up a child would be<sup>61</sup>. If we are to believe the estimates of total child costs, then the parents we polled are also typically underestimating what their child will cost them in the long run. 15% of those we polled think that they will need to spend no more than £20,000 on their child in its lifetime. Over a third (36%) expect to spend no more than £40,000 on them. And over half (56%) do not expect to spend more than £60,000. Less than one in five (19%) expect to spend more than £100,000.

*"I've not really thought about the future. I'll just find the money when we need it." Anne-Marie, mother, Leeds*

*"I wasn't thinking about secondary schools but now I've got a daughter who's going to one next year. That stuff creeps up on you." Mark, father, Purley*

Unfortunately few of the parents we spoke to or polled have been doing anything practical about the future: at least until recently. Over three quarters (79%) of those we polled now think it is a good idea to put some money aside each month for their child's future, yet less than one in five actually do so. When we asked our respondents to choose which out of a series of possible financial scenarios most closely resembled their own, just 19% said that they put aside a sum each month. And even fewer (18%) have "set aside a lump sum in a bank or building society for my child's future". Over a quarter (27%) "don't save anything specific but I'll always ensure there is enough for my child's needs." One in six (16%) simply "set some money aside when I can." Seven per cent do not do any of the above and are "worried I might not have enough money to cover the long term costs of my child."

*"You think about secondary school and university, but you just do it vaguely. I should've done more. I opened an account for them and I've been meaning to put money into it, but other things got in the way." Jo, mother, Purley*

*"You think about the future but it's harder to plan for it in the current climate. It's all you can do to pay for the here and now." Mark, father, Purley*

There are two pieces of good news, however. Firstly, of course, the Child Trust Fund means that children will have money available to help them realise some of their life stage goals once they reach the age of 18: going to university, buying a car, putting the deposit down on a home. But children will not receive the greatest benefit unless their parents top it up.

*"I look back and think if I'd only added money to [my younger child's Child Trust Fund] a few years ago I'd have so much more now. But I just never got around to it." Jo, mother, Purley*

Secondly, as noted above, after years of 'spend spend spend', British parents are now starting to save again. Six million Britons intend to increase their savings in the next year or so, and a further three million, who are not current savers, intend to start saving soon.<sup>62</sup>

Research suggests that parents' newly responsible attitudes towards finance since the downturn will continue even after the economy picks up. This all bodes well, but parents will have to continue to save, regularly and in significant amounts, if they are to provide fully for their children in future.

### 3.2 SEVEN YEAR OLDS' FINANCIAL FUTURE

It is hard to predict what the economy will be like in 2020 when the first Child Trust Funds mature. Some of the greatest financial minds are currently finding it hard to predict what it will do even in the next few months. But it certainly appears that it will be less easy than it was in the 1990s and early 2000s in terms of job availability, public funding or personal credit. Many of the parents we interviewed are worried about what lies ahead for their children.

<sup>61</sup> The Children's Mutual / SIRC, 'Coming Of Wage', 2007

<sup>62</sup> Mintel, May 2009

*"I worry for my kids about the future. The debt the country will have. It's not going to be easy. It was easy for us – there were jobs. Not anymore." Maria, mother, Purley*

No matter what happens to the economy, today's seven year olds are likely to have a range of expenses when they reach the age of 18. Although university entrance may drop as graduate job opportunities dwindle, it is unlikely to fall considerably. Many children will therefore need money to pay for both the formal and informal aspects of further education. Also, even though rental accommodation looks likely to become popular again, the majority are still going to want to buy their own home, so will need deposit money. Changing attitudes to consumption brought about by the recession look set to reduce our fascination with possessions to some extent. But they are still likely to expect a lifestyle that includes home entertainment, new clothes, a regular social life, and so on. And all of this will require a considerable outlay.

As explored above, many parents are concerned about how they will pay for all of this in future. But how will their seven year old children cope financially? The answer appears to be 'relatively well': or at least, 'better than their parents'. As a generation, they look set to take a more serious approach to finance than their parents. Certainly many of their parents think so.

*"They're going to be a nation of go-getters. They're very competitive. More so with my seven year old than with my older one." Phil, father, Leeds*

*"I think they might grow up being more sensible. When they hear the rattle of coins in our holiday money jar it's 'what you doing in there dad - that's our holiday money!'" Shaun, father, Leeds*

As described above, the socio-economic trends that influenced these children as they grew up already seem to have had a positive effect on their sense of financial responsibility. And this is likely to grow in the years ahead. Their increased anxiety about the future is likely to make today's children more prudent. The economic downturn should have an equally positive effect on today's seven year olds' attitudes to finance as on their parents'. Almost two thirds (63%) of the parents we polled think that growing up in the current recession will have a positive effect on their children's attitude towards money in the future. A third (33%) think it will make their child more aware about money and 30% think it will make them more financially responsible. Parents' more 'responsible' post-recession behaviours are also very likely to rub off on their children, especially those who are most open to parental influence: the pre-teens. As parents become more prudent with money, they will be more likely to set up savings accounts for their children. And children are likely to react well to this. As a generation there is a good chance that they will curb impulse and 'frivolous' spending, and savings will rise.

*"I think the impact of recession has made today's children more aware of money, and more nervous about the money they and their parents spend. And I believe it will make them more careful with their own money in the future<sup>63</sup>."*

*"Seven year olds have been hit by the recession and are at an age when they will remember it and it will have an effect on them. They'll be looking at where they put their money. We might get a new generation of savers. Plus if they see mummy saving then they'll be more likely to save themselves." Andie, teacher, Nottingham*

*"I think what's happening with the economy now means they might be a bit more sensible, a bit more cautious with their money. Not wasting things like water or electricity." Mark, father, Purley*

Children are not necessarily likely to become 'independent' of their parents, however. Fewer than 40% of 18-24 year olds in the UK think it important to have left home to be considered an adult<sup>64</sup>. And the democratisation of parenting described above means there is typically less intergenerational friction around any more, so less to 'escape' from. But unlike the previous generation this does not necessarily mean children will expect their parents to pay for everything. It is simply that many do not feel the 'need' to leave home. In fact they look likely to want to help out. We may see a greater financial togetherness among families, with family members sharing

<sup>63</sup> Laura James, author, 'Tigger On The Couch'

<sup>64</sup> The Children's Mutual / SIRC, 'Financial Independence', 2008

expenses. This could develop into a trend: what one research agency has christened 'FARGO' or Families Are Really Getting Organised<sup>65</sup>.

*"Seven year olds generally worry about the future more today than (previous generations) did and they are thinking further ahead. They worry about their family not having enough money to cope in the future, to pay the bills. And that's making them more responsible. One little boy's mother gave him £5 to spend on a school trip and he made a point of saving it all so he could give it back to her at the end, so she could use it herself. I've never encountered that kind of thinking before. In the past he'd just have spent it." Lynne, teacher, Nottingham*

There will be a lot to pay for as today's seven year olds grow up. And parents will need to save more for and on behalf of their children to pay for it all. But the evidence above suggest today's seven year olds will adopt a more responsible attitude towards money, so will take some burden off their parents in the years to come. Those just starting to turn seven now have an even greater opportunity with the prudent use of the Child Trust Fund.

However, one final quote from the focus groups suggests a rather chilling potential consequence of children's increasing financial focus:

*"I was explaining to my seven year old about wills and how 'when mummy and daddy die' she'll get the house. And she got a little glint in her eye and said 'Really? How much is it worth? ...'" Sharon, mother, Purley*

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<sup>65</sup> European Social Survey / nVision, October 2008

**APPENDIX 1:****METHODOLOGY**

To gain an accurate understanding of how seven year olds are behaving today, why they are doing so and how their behaviours might develop, we needed to poll a robust and representative sample of UK parents. We also needed the motivational data provided by qualitative research. There were also two further concerns. We were dealing with very young children, who do not always find it easy to articulate their opinions. And we were dealing with the future: a topic no respondent can be expected to predict accurately. Unable to rely on just children's responses to understand children's behaviour, we asked their parents and teachers as well. And, having gone beyond our respondents' own opinions for future-facing data, as well as interviewing them, we also had to trace the trajectory of past trends as they have developed up to the present and then project these forward. The research therefore required a tripartite approach: combining primary quantitative and qualitative polling with secondary trends research.

Our first task was to gain an understanding of some of the issues that might be impacting children today as regards their relationships with money. To do this we ran a Trend Sweep: a broad exploration of relevant trends based on a range of secondary research data. We studied a range of recent socio-economic trends as they have developed from the past to the present, and as they look set to develop in the future. These included fluctuating financial attitudes and behaviours: from purchasing to saving; new financial responsibilities; and evolving parental and filial attitudes. We took this information from expert opinion, observation, secondary polling and media scanning. We also interviewed three primary school teachers from Nottinghamshire, each of whom had ten years experience of teaching seven year olds, to gain an understanding of how attitudes among seven year olds have changed in recent years.

Armed with this data, the next step was to test our hypothesis among a robust sample of Britons. We ran a poll of 1,988 parents who have a seven year old child, using an online questionnaire. In it we asked them questions about their children's financial attitudes and behaviours, how these manifested themselves and what caused them, as well as questions about their own attitudes. Finally, we ran focus groups to gain clearer insights into some of the real life stories and motivations behind the statistics. These were divided into parents of seven year olds, parents that have a seven year old and a teenager, and seven year olds themselves. Groups were composed of a mix of males and females, and a range of age and income cohorts. We ran them in the north and south of England: in Leeds and Purley, Surrey. To ensure a focused and considered discussion within each group, we pre-prepared the groups with respondent "homework", asking them to complete diaries describing any discussions they had with their seven year old about money over a seven day period. While the seven year olds in this research don't have Child Trust Funds, as the age of seven is recognised as such a crucial watershed in a child's education and thinking, it was necessary to ascertain the change in thinking of children at this point in their life.



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