

Allowance\$

by vcmorris - Thursday, May 28, 2009

<http://thethinpinkline.com/2009/05/28/allowance/>

As far as I'm concerned, it's never too early to learn how to manage money. Just ask my 6-1/2 year old grandson Morgan. I started having conversations with him about money when he was a toddler and started saying: "I want."

Those early little chats started with semantics. I'd ask: "Morgan, do you *need* that or do you *want* that?" And I explained the difference between a need and a want: a need was something I agreed was so important that I'd help him get it (aka buy it for him); a want was something he'd like but didn't have to have so his piggy bank would need to pay for it.

Repetition worked. And as he got older, he came to understand that repetition was just another word for consistency when it came to money conversations with me - Grandma GoGo.

Which brings me to the subject of kids and allowances. True - there are different schools of thought when it comes to giving a child an allowance. But it's a conversation that happens in just about every household whether the family income is large or small.

Many people believe an allowance is an essential stepping-stone to learning the value of money. Others don't agree. As a financial journalist, a mother and grandmother of two young children (Morgan's little sister Savannah is my other grandliddle and she's 2-1/2) I believe allowances *allow* parents to help guide their children onto the road to financial responsibility.

Every household will have different ways of approaching allowances, but if you choose to accept the "give them an allowance school of thought" - there are some concrete ways manage allowances successfully.

So how do you get started? The best time to introduce the idea of an allowance is when your child can count dollars and coins and understands the concept of prices. Some money specialists say this is usually around 5 or 6 years old.

Then the big question is - how much allowance should you give? The answer is - there's no one-amount-fits all suggestion - although lots of studies say the rule of thumb is a dollar for every year of age. That might not be appropriate for everyone and it also depends on the frequency of the allowance - which I suggest be weekly because then there's a consistency and continuity to the money management lessons.

Some things to consider when deciding how much:

- **Your child's age.** You want to make sure to give room for increases as your child gets older. So be careful not to start with too high a number for younger children.

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- **Your family income.** The only way to teach financial responsibility is to practice it. Your child's allowance must fit within your family budget.
- **What the allowance will pay for.** If you expect your teenager to pay for his or her clothes with their allowance, you might consider a higher amount than if you will continue buying their clothing for them.
- **Before handing over any allowance money - teach the money basics.** Discuss the difference between needs and wants, saving, spending, investing, donating, and of course - earning.
- **Encourage your children to keep records.** Help them get a better understanding of their allowance money "activity" by having them keep a simple accounting of what's spent (and hopefully what's saved) in a notebook. You'll be able to use that to "show them the money" lessons when needed to make your point and/or to congratulate them on good management.
- **Give allowance in denominations that encourage saving.** For example, for \$5 give five one-dollar bills and suggest that at least \$1 be set aside for savings. Then explain that if they *chose* to save *all* their allowance, \$5 a week at 6% interest compounded quarterly will total about \$266 after one year and \$3,527 after ten years. For some children, this straightforward information about what they'll later come to know as the *magic of compounding* - will cause the savings bug to bite.

As for whether allowances should be tied to chores - money specialists are divided. Some think it's important that children see the value of work to earn money. Others think chores should always be done as part of the family needs - separate from the allowance. And then there are those who advocate finding a way to blend the two by putting a value on specific chores.

However you decide to teach your children about money through allowances - good for you! The fact that you're *introducing the concept* of earning money is a big step towards growing their financial knowledge.

Here's to your health and wealth.