



# Children and Money

## Allowances and Alternatives

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Everyone has attitudes and feelings about money which are based upon observations and experiences of childhood. How money was handled in your family when you were a child will greatly affect how you handle money with your children. Because of these different attitudes about money, conflicts often arise between parents when money topics such as allowances are discussed. It is very important for parents to use a consistent approach to giving their children money and to teaching them about earning, spending, sharing, saving, and borrowing money.

While this publication explains the ways children receive money, more general information is presented in *Teaching Children Money Habits For Life* listed in the reference section.

There is no right or wrong way to provide children with money. Each method has advantages and disadvantages. Because each family's financial situation is different, choosing a method or combination of methods is a family decision. This publication talks about the pros and cons of each method and ways to make any method work for your family.

### Developing A Consistent Parental Approach

Before any decisions are made about how or if children should receive money, each parent should identify and discuss his/her own attitudes about money. Parents should ask themselves the following questions as the basis for discussion. That discussion will eventually lead to a mutual view about money and their children. Parents will then be prepared to include children in the decision-making process.

What does money mean to you?

What good memories about money do you have from your childhood?

What bad memories about money do you have from your childhood?

Was an allowance given and what were the rules about it?

If an allowance wasn't given, how did you receive money?

What feelings do you associate with how you received money?

What attitudes or feelings about money have you carried into adulthood based on your family's approach to money when you were a child?

Which of your attitudes about money would you like to instill in your children?

What other attitudes would you like to instill in your children?

### Money Children Receive

The four main ways by which children receive money are allowances, the dole, cash gifts, and earnings.

1. Cash gifts are often received on special occasions such as birthdays or holidays.
2. *Earned money* involves being paid for completing a task.
3. *The dole* is money parents give children upon request.
4. *Allowance* usually means giving a child a specific amount of money on a regular basis.

### Cash Gifts

Children often receive gifts of money on birthdays and other special occasions. Whether or not cash gifts given to children are theirs depends upon cultural backgrounds and family rules. Parents and children should each have a voice in how the money is used. The final decision should increasingly become the responsibility of the child as s/he grows up. Parents play an important role in helping children decide whether to spend or save money. Since money gifts are received on an irregular basis, parents might encourage children not to include them in spending plans. These surprise funds might be invested in some form of savings for future use. Saving money gives your child the opportunity to establish some long-term goals and provides the means to implement them.

## **Earning**

Earning money can be done either at home or at a job outside the home. It provides an opportunity to establish standards and attitudes about work. Parents will need to discuss job alternatives and to help establish limits so work does not interfere with school, study time, family work, and activities, which are important parts of a child's life.

Employment opportunities help children to understand the relationship between money,

time, skills, and effort. Earning money is usually the final step to financial independence and can lead to a sense of self-sufficiency, freedom, and recognition. Involvement in earning activities can build self-esteem. However, it is important to remember that earning income does not mean that children will automatically become good money managers. Children need additional guidance to learn these skills. The following list provides some advantages and disadvantages for parents to consider in guiding children about earning income.

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## *Earning*

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### **Advantages**

- Teaches children responsibility and the need to meet obligations
- Teaches that money comes from time, skill, and effort
- Teaches financial independence
- Helps develop attitudes about work
- Provides opportunity to teach about taxes and other obligations
- Children learn to associate money with work and learn to work for money

### **Disadvantages**

- Can take too much of a child's time and energy
- Can take on jobs that are too hard for them
- Overpayment gives a child a false idea of what it takes to earn money
- Children often stop doing household jobs when outside jobs bring in more money
- Earning income does not necessarily mean children will become better money managers

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## **The Dole System**

Parents may give money to children when they ask for it. When children receive money in this way, it is often referred to as the dole method. In some instances, this method is very appropriate. Parents may need to use the dole method with very young children or with certain types of expenses,

such as school fees. The chart below outlines some of the advantages and disadvantages of the dole system. It is important to establish ground rules regarding appropriate times, places, amounts, and items when using the dole system.

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## *The Dole System*

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### **Advantages**

- Parents can more easily control the kinds and amounts of children's purchases
- Allows for flexibility when there is irregular income
- Parents can give or withhold money as they wish
- Children can get expensive items if they justify the expense or if they time their requests well
- Can be used to introduce the concept of money to very young children
- Works well for certain types of expenses such as school fees
- Parents do not have to plan ahead in order to give money to their children

### **Disadvantages**

- Often leads children to believe there is an inexhaustible supply of money for the asking
- Can lead to power struggles because the child has to ask for the money
- Parents can easily lose track of how much they have given children and they may be doling out more than they desire
- Often, parents give more money to children using this method than using an allowance
- Children sometimes become better at manipulating parents than managing money
- Children do not learn to budget or plan expenses well
- Children may equate purchases with love and approval or as payment for staying out of the way

## The Dole System or the Allowance System?

Some parents prefer the dole system because they feel they can't afford an allowance for their children. They view allowances as one more expense added to the budget. In fact, changing to the allowance system may be less expensive. Parents often give out more than they realize through the dole system. To find out, start keeping track of how much money you give your child in a typical week and how it is spent. Identify

three columns on a worksheet (date, purpose, and amount given) as shown in the chart.

When you have kept a record for a week discuss the issue with the other parent. This can be the basis for deciding between an allowance system or a dole system. Use this information as well to discuss the amount of allowance or how you want to proceed with the dole system. If you decide to go with an allowance, you may base the amount on what you are already spending in the dole system.

Child's Name \_\_\_\_\_

DATE		AMOUNT GIVEN
TOTAL:		

## Allowances

The topic of allowances is often a source of debate between parents. In discussing whether or not to use an allowance, parents may find the list of advantages and disadvantages helpful.

Guidelines for allowances are determined by family attitudes and values. No matter which allowance system you choose, good communication, consistency, and guidance are necessary to make the system work.

## Allowances

### Advantages

- Teaches basic money management
- Promotes independence
- Encourages communications
- Provides the practice of living on a regular income
- Helps parents recognize that children have legitimate financial needs
- Promotes a sense of responsibility
- Creates opportunities for both independent and guided decision-making
- Teaches the value of money
- Creates an atmosphere to encourage planning and setting goals
- Teaches children to learn from mistakes
- Forces parents to define what kinds of expenses belong to the child and what spending is allowed or prohibited by family values

### Disadvantages

- Difficult for parents to determine what amount of money a child can manage
- Can become a power issue if used as reward and punishment
- Can cause disagreement between parents if they don't have a united approach to money and children
- If linked with household chores, a child may learn that money is the only incentive to do things
- Doesn't work well with teens as a way to teach money management skills
- Parents may feel pressured by their children to give an allowance
- Allowance system may not be consistent if parents forget or don't follow through on agreement
- Can cause disagreements about whether or not allowances should be earned

There are two types of allowances; the earned income allowance and the entitled income allowance. Most of the controversy about allowances stems from the differences between these two views. Both types of allowances provide opportunities to teach financial responsibility to children.

### Earned Income Allowance

The earned income allowance is modeled after paid-employment relationships. In paid-employment relationships people have identified responsibilities. They are paid when they perform those responsibilities. This implies that someone has authority over establishing whether those responsibilities have been successfully completed. Parents using this type of allowance often tie the allowance to the performance of certain chores. They often reduce or withhold allowances when the chores are not performed satisfactorily.

Research has indicated that using the earned income allowance sometimes leads to increased child-parent conflict. A big factor contributing to that conflict is the lack of involvement of the child in evaluating their performance. In addition, withholding or reducing a child's allowance for bad behavior and increasing it for good behavior defeats the purpose of an allowance. The child sees it as a means of discipline rather than as a way to teach the basics of money management.

### Entitled Income Allowance

The entitled income allowance implies children are entitled to a share of the family income simply because they are family members. Ideally, they will be sufficiently responsible and considerate of others' needs to assume a fair share of the household chores. In this type of allowance, if the child refuses to pick up his or her clothes, for example, the parents would seek the causes of noncompliance and possibly restrict some privileges, rather than docking the allowance. Some people believe this view does not teach children the cause and effect relationship involved in working for pay.

### Choosing an Allowance System

What parents need to decide is which type of allowance system, if any, they want to use with their children. Parents may also decide to initiate a system with characteristics of both types of allowance systems. No matter what system is decided upon, it is important to be consistent with how you give it, and to establish agreed-upon rules for how it is to be used. It is also important to provide discretionary money, which children decide how to spend.

An allowance is one of the best tools parents have to teach children about the basics of money management. The concepts of earning, spending, saving, and credit can be put into practice using either allowance system, if parents make a conscious effort to do so.

### Allowance Procedures

Few children see an allowance as an educational tool. In order to be an effective teaching tool, allowances need to be a planned experience between the parent and child. It may be helpful for parents to discuss these questions when deciding about allowances for their children:

- How do/will I teach my children about money management?
- Did I receive an allowance as a child?
- If given an allowance, how was it given? Did I have to earn it or was it given to me without question?
- If I didn't receive an allowance, how was I taught about money?
- If I didn't receive an allowance, did I wish I had? Why or why not?
- Is there anything I would do differently than my parents in terms of using an allowance to teach my children about money?
- How will we, as parents, resolve differences about how to approach allowances with our children?
- How will my child learn that there are limits to income and that as an adult, one can't simply ask for more pay?

### When Do You Begin Giving Allowances

Children are ready to handle an allowance when they can tell one coin from another, are comfortable with counting and numbers, and have spending opportunities. An allowance given before the age five is not likely to have much educational value. In general, it might start when they begin to make regular requests for money for various items, i.e., crayons, toys, candy, or ice cream. These requests usually occur at approximately 6 to 8 years.

### How Much Should the Allowance Be?

The size of the allowance might be determined by the child's level of maturity, the items it will cover, and the amount you can afford. If you have been using the dole system, you might base the allowance amount on what you have been giving the child in the past. Children can help set their allowance, as well, by ranking their needs in order of importance. By including the child in the decision-making process, they learn that money is limited, that income must first cover needs, and that the family's financial situation affects the amount each member can use.

It is important that an allowance include enough money to cover some *fun* expenses. If all the money is earmarked for necessities, children have little opportunity to choose among alternatives. A good rule of thumb is that it be large enough to cover the agreed upon basic needs plus extra for savings and fun spending, yet small enough to require choices. Once you have set the amount, also set a time to reevaluate it.

### How Often Should an Allowance be Given?

To be an effective teaching tool, allowances should be given at regular intervals. This may mean twice a week for a 6 to 8-year-old, weekly for a 9 to 12-year-old, every other week for a 13 to 15-year old, and monthly for the 16 to 18-year-old.

Allowances need to be consistent. Your children feel the same way you do when you do not receive your paycheck as expected. Clarity is also

important. Both the child and the parent need to be clear about the amount, the day it will be paid, the expenses it will cover, and the amount the child can use as s/he chooses. It is important also to evaluate the allowances procedures periodically.

### When Should An Allowance Be Increased?

An allowance does not need to automatically increase as the child becomes one year older. There are two reasons for an increase: 1. an increase in the cost of expenses the child is to cover (e.g., school lunch prices go up), or 2. the allowance is expected to cover more of the child's expenses as the child's maturity increases.

### Allowance Contract

One way to ensure more consistency and clarity is for the parents and child to write an allowance contract. Both parent and child should sign the contract. Here is an example:

### *Allowance for*

The amount: \$ \_\_\_\_\_

(child's name)

The day it will be paid: \_\_\_\_\_

The expenses it will cover: \_\_\_\_\_  
\_\_\_\_\_  
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The amount to use as I choose: \$ \_\_\_\_\_

The date to review how I have used my allowance: \_\_\_\_\_

Parent

Child

## Developing a Spending Plan

Setting up a spending plan for your children's allowance encourages them to think about their spending. It also teaches them financial record keeping. Here is a process to try with your

children periodically. The best time to do it may be when first establishing an allowance and when changing it is being discussed.

**Stage 1.** Children can use the chart below to keep a careful record of what they spend for five days.

<b>Spent By Me</b>					
	<i>Day 1</i>	<i>Day 2</i>	<i>Day 3</i>	<i>Day 4</i>	<i>Day 5</i>
<i>Item Cost</i>					
<i>Item Cost</i>					
<i>Item Cost</i>					
<i>Item Cost</i>					
<i>Item Cost</i>					
					<i>Total for 5 days</i> _____

**Stage 2.** As with adults, children's expenses can be classified as daily (school lunches), weekly (church contributions), and periodic (birthday gifts). Children have fixed expenses that occur regularly (school lunches) and flexible expenses

that occur irregularly (movies, snacks, toys). By setting up a plan and keeping track of expenses, children learn that money can go further with planned spending.

Complete the graph below and see how it was spent.

<b>Item Bought</b>					
	<i>Day 1</i>	<i>Day 2</i>	<i>Day 3</i>	<i>Day 4</i>	<i>Day 5</i>
<i>Lunches</i>					
<i>Snacks</i>					
<i>School Supplies</i>					
<i>Entertainment</i>					
<i>Church Gifts</i>					

**Stage 3.** Parent and child should together answer the following questions about how the allowance was spent. These issues, as appropriate, should also be discussed: 1) priorities, 2) how things might change based on priorities, 3) the differences between how each of you looks at the way the allowance was spent, (4) how your agreement is working, and 5) if it needs to be adjusted.

- *How much of your allowance did you spend?* \_\_\_\_\_
- *How much of your allowance did you save?* \_\_\_\_\_
- *How much was spent for things you need?* \_\_\_\_\_
- *In what ways would you change your spending next week?* \_\_\_\_\_
- *Suppose you want to buy something that costs \$50.00. How much discretionary money (money left after you get what you need) can you save each week?* \_\_\_\_\_
- *How long will you need to save enough to make your purchase?* \_\_\_\_\_

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### Guidelines for an Allowance

- Be consistent. Set a day to give the allowance. Agree upon the amount and the limits for spending. Try an allowance contract that both child and parent(s) sign.
- Children need to be able to spend some money however they wish. They need to practice making their own decisions.
- Don't come to the rescue every time your child runs out of money. If your child is ever going to learn how to manage money, s/he must face the consequences of their own spending mistakes.
- Money is not generally effective as a reward or punishment. Children who are given money for things like good grades, thoughtfulness, or helping at home learn to put a monetary value on character and achievement. Positive behavior can be reinforced in other ways. A special outing together or an expression of appreciation for a job well done often means more to children than a financial bonus.
- The purpose of an allowance is to begin to shift some of the responsibility for goal setting, planning, implementing plans, and making choices for your child. A small investment of time and energy while the child is young can have big payoffs later.
- Guide and advise your children's money decisions rather than direct and dictate.
- Encourage and praise rather than criticize and rebuke. Doing so will help develop confidence in their own ability.
- Remember that your children will differ.
- Respect their individuality. Avoid making comparisons with siblings or other children.
- Be patient. It takes children time to learn to manage money and develop financial responsibility. Frequent references to their mistakes should be avoided; they usually are already aware of them. Overreacting to mistakes with money leads children to believe that money is more important than it should be.

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