

Allowance 101

By SARA ECKEL ON JUL 1, 2010 AT 4:30PM

Want your spendthrift children to grow up to be thrifty adults? Let them have more control over their money and they'll quickly learn the value of a dollar



If you want to raise financially responsible children, give them lots of opportunities to be foolish with money. "You *want* your kids to make mistakes, because it's better to make a \$20 mistake when you're very young than to make a \$20,000 mistake later in life," says Jayne Pearl, co-author of *Kids, Wealth and Consequences: Ensuring a Responsible Financial Future for the Next Generation*.

A weekly allowance is one of the best ways parents can help kids learn to make financial choices. Pearl suggests giving kids the responsibility not just for goodies like candy and computer games, but also for necessities like shampoo and school lunches. "The beauty of this system is that you're already paying a lot for your kids. Now you're just transferring the responsibility," says Pearl.

Pearl doesn't believe in directly linking allowance to day-to-day chores. "I think kids should do certain things because they are citizens of the household," she says. But regardless of whether you decide to make your child's allowance chore-driven, Pearl recommends that you calculate the amount based on the cost of the items and services they will be responsible for. Another way to set the rate is to use online allowance calculators like the one found on ThreeJars.com, which enables parents to inflation-adjust the amount they received when they were young. (Of course, if you weren't required to purchase your own winter coat when you were in middle school, but you're requiring your 12-year-old to do so, that and any other additional costs should be factored in.)

Kids (Ages 7 to 9)

Allowance should cover: School lunches, toys, batteries for toys and a small portion of birthday gifts for friends.

Kids at this age are too young to carry the burden of budgeting for essentials, but there are small, low-risk ways to start giving your child some financial power. For example, to give your child control of her school-lunch budget, Pearl suggests you propose the following: You will continue to give her \$2 a day to buy hot lunch at school. However, if she would prefer to pack a healthy lunch for herself the night before, you will *also* give her \$2 that can use for anything she likes.

While of course kids should be *encouraged* to save, Pearl advises against forcing them to. Better to let your child blow all her cash at the arcade—and *then* feel the pain of not having enough to buy the jewelry-making kit she wanted. "When they stumble around but then figure out how to get past the obstacles, it's a fantastic feeling," says Pearl.

"They realize that they have some control and can accomplish things, and that is where self-esteem comes from."

Tweens (Ages 10 to 12)

Allowance should cover: All of the above, plus public transportation cards, toiletries, hair cuts, video games, CDs, sports and music equipment, movies, clothes beyond the parents' allocated budget and half the cost of gifts for friends.

At this age, kids can start learning to make hard choices—and pay the price for bad decisions. One way to help usher them into fiscal responsibility is to provide a lump-sum clothing allowance at back-to-school time. Work with your tween on a shopping list and set the budget *before* you hit the mall. That way your son will have to figure out what to do when he sees that cool sports jersey he didn't budget for. "At that point you can say, 'Well, we budgeted \$40 for a pair of jeans, but these jeans are on sale for \$25. Do you want to take a look?' Normally he'd say, 'No way!' But with this system you can usually get him to say, 'Well, I'll take a *look*,'" says Pearl.

Even if your child's allowance is not chore-based, it might make sense to pay tweens looking for extra cash for tasks that you might otherwise hire someone to do—like washing the windows, babysitting younger siblings or mowing the lawn.

Teenagers (13 and Up)

Allowance should cover: All of the above plus musical instruments, a portion of music lessons, school trips, car expenses and all of their clothes and gifts for friends.

As they prepare to move out of the house in a few short years, teenagers should be given substantial latitude to control—wisely or unwisely—their budgets. Instead of giving your teen a back-to-school clothing allowance, Pearl recommends factoring *all* of her clothing expenses into her weekly allowance so that she will learn to save for her new fall wardrobe—or else go without. She also recommends starting your teen out with a \$100 reserve fund for essentials, like replacing a pair of shoes that no longer fit. "That way she can't say, 'Well, you *have* to buy me new shoes—my feet are killing me!'"

Because a car is a huge expense—and often a necessity if the teen works outside of the home—Pearl advises families to work with their teenagers to determine what is realistic. For example, if your child needs a loan to repair her car, Pearl suggests writing up a firm contract and repayment schedule. Teens can also earn a portion of their gas for tasks like picking up younger siblings from soccer practice or dropping Mom off at the commuter-rail station.

The bottom line: Work with your kids to determine the system of choice and accountability that works best *for them*. "Everyone's circumstances and kids are unique—even in one family, what works for one kid might flop with another, says Pearl. "You have to customize for each kid."