

What to allow when it comes to allowances

Teaching your children a lesson of a lifetime: the value of the dollar



Kim Carney / MSNBC.com

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Got money worries in your adult life? If so, be honest: Are some of those worries related to stubbornly bad money habits you find tough to shake?

Well, that just might be your parents' fault. Financial experts say the money troubles that plague many of us as adults often stem from the way our parents raised us to view and handle money.

No matter what financial demons might be haunting you, though — from high credit-card debt to a non-existent savings habit to an inability to budget accurately for short- or long-term goals — money professionals say you absolutely can break the cycle for yourself and for your own children. One way to do this is to make wise use of a simple, time-honored tool: Allowances.

Success depends on how parents decide to play the allowance game. Fumble it, experts say, and children can learn all the wrong lessons about money and develop a sense of entitlement. Handle it well, and children can learn to be responsible decision-makers who know how to allocate their funds and live beneath their means.

“Just like we teach our children good hygiene, good manners — anything that’s a critical life skill — that’s what we have to do with allowance,” said Susan Beacham, a former private banker who founded Money Savvy Generation, a company in Lake Bluff, Ill., that teaches personal-finance concepts to children and parents.

“When you introduce allowance you have the opportunity to teach your child how to control impulses and delay gratification.”

Rules of engagement

Financial and child-development experts generally agree on some [overall principles about allowances](#). For starters, they say children need to be given an amount of money that is age-appropriate and that allows them to make real choices — and real mistakes — so they can feel how much it hurts.

“Eventually they’re going to ... buy a toy that turns out to be a piece of junk, even though it looked glitzy in the packaging,” said Peggy Eddy, a certified financial planner and president of Creative Capital Management Inc. in San Diego. “I’d rather have my child make an \$11 mistake than wait until he’s 50 and inherit from our estate and buy something stupid.”



Experts also recommend talking with young children about money-related choices before starting an allowance; paying kids in cold, hard cash because it’s less abstract than, say, a prepaid debit card; assigning them certain financial responsibilities and sticking to that arrangement without bailing them out; being punctual about payday; and being very, very careful about tying the allowance to routine chores. (More on that in a minute.)

Allowances are a big deal in the home of Jackie and Kevin Freiberg, authors and professional public speakers who live in San Diego. The Freibergs have three children: Taylor-Grace, 15, Aubrey, 11, and Dylan, 6. They’ve been giving the girls regular monthly allowances on a dependable schedule for some time now, but they haven’t started the allowance regime with Dylan yet because he’s still so young.

That's not to say they aren't teaching Dylan about money. When Jackie takes him shopping with her, she'll have a pre-emptive chat with him before they enter the store. On some days, she'll tell him not to pester her at all for any purchases. On other days, she'll give him a spending limit — say, \$5 or \$10 — and tell him it's his job to find something he likes under that amount.

"You can tell that he can choose more wisely now," she said. "I'll say, 'OK, Dylan, what's the better deal? This for \$5.99 or this for \$9.95?' He'll often make the better choice." For his part, Dylan loves this arrangement. "I look at the price tags myself," he said with pride. And why does his mom set a spending limit for him? "Because then you won't waste money," he said.

Beacham of Money Savvy Generation is an advocate of sitting down with children when they're old enough and deciding which expenses will become their responsibility from here on out. In her household, her daughters Allison, 15, and Amanda, 13, agreed to take charge of paying for their school lunches, toiletries and clothing. They even signed a contract to that effect. Those expenses come to about \$80 a month, so that's what Beacham's daughters get.

It's not that simple, though. Above and beyond choosing how to spend that \$80 to cover those expenses, the girls agreed to set aside at least some money each month in three additional categories: save, invest and donate.

"I'm trying to teach them the habit of choice," Beacham said. "First of all, their allowance is for expense coverage. It's not money just for breathing. ... And I've told them, 'Now you have to do what I do when I get paid. You have to put some money away, donate some money and invest some money for the future. You have to pay yourself first.'"

Beacham sees a special benefit in having her daughters handle their own clothing budgets.

"You know how many things they walk away from now that in the past they were falling on their swords over, and I was giving in and buying these things for them because I didn't want to see my child in pain?" she said.

"All of a sudden you get to see what's important. It's a beautiful thing. Your money, they're always willing to spend. Their money, it's a whole different ballgame. You don't get that unless you give them some money to control and to make mistakes with."

Money for chores — or not?

Many financial professionals caution that connecting allowance money to chores can be a slippery slope. Such an arrangement could lead to children saying, "How much?" every time they're

asked to do something around the house — especially as they get older and find other sources of income from baby-sitting, dog-walking, summer jobs and even holiday and birthday money.

That said, some say it's a great idea to sit down with your child and arrive at a clear set of overall expectations together. For example: The child will keep his or her room neat and clean, clear the table after dinner, fold his or her laundry and put it away and take out the garbage. In exchange for holding up that entire end of the bargain regularly, he or she will get an agreed-upon weekly or monthly allowance.

In Joel Larsen's house, it doesn't quite fly that way. Larsen is a certified financial planner and principal of Larsen Financial Strategies Group in Davis, Calif. He and his wife Terrie-Lynne have two daughters: Shasha, 10, and Meng Zhen, 6.

"There is no allowance in our house," Larsen said. "Chores are expected to be done because everyone in the family helps. Period. When our kids need or want money, they can earn it."

Larsen and his wife have devised a system — some might say an ingenious one — whereby their daughters actually fork over some cash if they neglect to take care of their duties around the house. The fine for failing to clear the dinner table, for instance, is 25 cents. And if they leave their toys out at the end of the day, the toys go into "jail" — a basket in the pantry. It costs 10 cents to release an individual toy from its prison sentence.

Because this is done consistently, and in a consistently fun way, the whole arrangement has become something of a game for the girls. The other night they noticed that their mom had left her shoes laying around, and they put the shoes in jail. Mom had to add a dime to all the other "fine" money, which lives in a jar heavy with coins that will get donated to UNICEF.

"If the (girls) don't have a dime, we've got something they can do to earn it," Larsen said. "The little one can wash dog prints off the window almost every day — and that's worth a whole buck! My 10-year-old helps me in the office, and I pay her six bucks an hour. She earned enough money to buy a Nintendo DS ... and she feels good about it."

For Terry Almario of Seattle, the system of agreeing on a whole set of expectations up front with her 11-year-old daughter Margie has worked well.

"I've used allowance as an opportunity to teach Margie when you work hard you are rewarded, and this will be true all your life," said Almario, a real estate agent.

Margie earns \$30 a month for helping to clean the house regularly. This includes unloading and loading the dishwasher, keeping her room clean, helping to vacuum, cleaning the bathroom and dusting at least once a week. She also makes a dollar for each 'A' she gets on her report card.

"I came home yesterday and she had cleaned the kitchen and picked things up around the house," Almario said. "She cleaned her room and got up this morning and unloaded and loaded the dishwasher. It was amazing."

Margie said she was happy to help.

"My mom's been working really hard and I wanted to give her something that would relax her," Margie said. "I think kids should get allowances if they do chores. ... I have a lot of friends who get allowances but they don't do anything. So the parents just pay them to just sit around and really do nothing."

Special money for special jobs, goals

Most financial and child-development experts agree across the board that it's a fine idea to pay children extra money for extra jobs, such as mowing the lawn, washing windows, washing the car or helping to clean out the garage — especially if the child is saving for a big item.



Margie Almario, 11, earns \$30 a month for chores.

An impending car purchase for their oldest daughter has become a huge catalyst in the Freiberg home. Mom and Dad have agreed to match whatever money 15-year-old Taylor-Grace saves toward the purchase.

There are strings attached. Taylor-Grace must maintain a 'B' grade point average or better, play on a sports team, handle a slew of basic household chores on a regular basis, and help babysit her 6-year-old brother Dylan when needed. That babysitting work can bring in some extra money on top of her regular allowance money.

"We are absolutely trying to instill in her a work ethic," Jackie Freiberg said.

Taylor-Grace is so motivated about the car purchase that she's been stashing three-fourths of her monthly allowance — or \$150 — into her personal savings account.

She's also become quite entrepreneurial. She baby-sits around the neighborhood for \$10 an hour whenever she can, and she runs a weeklong dance camp for young girls over the summer and nets about \$650 in the process.

"The car purchase is *very* important to me," Taylor-Grace said. "My parents told me even before I was into getting a permit that I can't come back and complain or anything when I see my friends' parents just buying them cars... They want me to feel a sense of ownership for the car that I buy, something that I worked hard to get, not just something that they bought me. ...

"I've learned that saving is the best. Even though it's not the greatest in the short term, in the long term it's the best. Do I want the car in the end, or do I want this shirt that I might wear once?"

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