

Set your kid up for success with allowance plan

Struggling with your child over money? Follow these helpful tips



Money Savvy Generation makes the Money Savvy Pig, which includes places for kids to stash cash in four categories: Save, Spend, Donate and Invest.

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An allowance can be an excellent tool for teaching children how to manage their own money with confidence and self-discipline.

The trick is to figure out an allowance system that will teach your child important money lessons at a young age without sacrificing your sanity.

Of course, every family and every child is different, and only you can tell what kind of approach would work well or fail miserably in your household.

But these general principles from financial and child-development experts can help you decide how to proceed.

1. Think about when to start. Some money experts say an allowance, and accompanying conversations about money, should begin as soon as a child is old enough to stop swallowing money – say 3 or 4. Others say a greater level of maturity might be needed, so it might be wise

to wait until around age 8. Again, you know your child better than anyone, so you're uniquely qualified to make the call about when he or she is ready to handle a regular allowance.

2. Talk a whole bunch before handing over any cash. If many adults find it easy to spend most of the money they get, imagine how challenging money management could be for a kid. Before launching into any kind of an allowance system, talk with children about saving, investing and donating as well as spending. Help them understand that money allows them to set goals and make important choices.

3. Consider a transparent piggy bank. Sure, porcelain piggy banks with one little slot are adorable — but imagine how much a kid could learn with a see-through, four-chambered piggy bank that helps them think hard about how to allocate their funds. Illinois-based Money Savvy Generation makes the [Money Savvy Pig](#), which includes places for kids to stash cash in a "save" category, a "spend" category, a "donate" category and an "invest" category.

4. Break it down — in cash. Give children four quarters instead of a dollar bill. They may be more likely to save, donate or invest a portion of their allowance if they receive it in small denominations. Even as children get older, continue paying them in cash. The easiest way for them to understand the real value of money — as opposed to the abstract universe of debit and credit — is to deal with actual coins and currency. They'll remember how it feels to watch it accumulate, and to watch it go away. (Besides, some of the prepaid debit cards being marketed to teens these days carry shockingly high fees. Read the fine print on them and you might be even more sold on the cash approach.)

5. Be pragmatic about payday. Give the allowance on a Sunday night or some other time when the child can't rush out and spend all the money.

6. Assign responsibilities. Even young children can use a portion of their allowance to pay for some items they want or need, such as candy or school supplies. Increase their financial responsibilities as they get older, and agree on a fair allowance amount together based on the deal you strike.

7. Don't interfere or bail them out. With the exception of agreed-upon fixed expenses, give children control over what they do with their allowance money. Let them learn from their spending mistakes while they're young and the stakes aren't too high. Teach them that resources are limited and that they need to distinguish between wants and needs, even if they have overspent their allowance and then want something else.

8. Don't use the allowance as a disciplinary tool. The allowance generally should not be tied to behavior. If a child misbehaves, opt for another form of discipline rather than withholding allowance money.

9. Beware of the chore connection. Be careful about linking the allowance to chores you expect the child to do as a member of the family. Otherwise, your child could start asking, "How much?" every time you ask him or her to do something. However, parents and children can discuss pay for extra jobs, such as mowing the lawn or washing the car, especially if the child is saving for a big or special item.

10. Neither a borrower nor a lender be. But if you do decide to give an advance, consider lending with interest charges. The child will quickly learn how expensive it can be to borrow money. Also, for the sake of fairness, parents should strongly resist the urge to borrow cash from their kids. Doing so can open an awkward and unexpected can of worms: Many parents tend to resent having to pay the money back, so they don't — and the child is essentially left with a broken promise.

Sources and resources:

- [Peggy Eddy of Creative Capital Management Inc.](#)
- [Susan Beacham of Money Savvy Generation](#)
- [Janet Bodnar's "Money Smart Kids" column on Kiplinger.com](#)
- [Kids' Money](#)
- [Financial Planning Association](#)
- [Bankrate.com](#)

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