

A Parents' Guide to Allowances

Unbiased Financial Education Provided By Financial Finesse

Some financial experts and child psychologists agree that allowances can be a great way for kids to develop good money management skills that can last a lifetime. An allowance teaches children to carefully consider how much things cost, to prioritize wants, and to appreciate those things that they purchase with their own money. Allowances can also help children grasp the crucial concept of saving, or "paying themselves first." While the benefits of an allowance may be clear, the specifics of how to structure it are more complex. Here are some allowance basics:

When to Start an Allowance and How Much to Give

Many experts suggest that the right age to start doling out the dough is around 5, depending on the maturity level of your child. You'll know that your child is ready to handle an allowance if he/she understands the concept of exchanging money for merchandise or services and knows the values of different coins and bills. Do you want your child to pay for his/her own movie tickets, or just for candy and video games at the theater? If you want your twelve-year-old to pay a portion of his clothing expenses and school lunches, twelve dollars a week may be too little. Ideally, an allowance should be enough to cover certain agreed upon expenses and also allow your child the opportunity to save or share some money.

Tips for Making the Most of an Allowance

Once you've settled on an amount that's appropriate for your child's age and your spending expectations, consider the following:

- Experts warn against tying allowances to chores because kids shouldn't be paid to contribute to the maintenance of the household.
- You should pay an allowance consistently on the same day of the week, and think twice about giving advances. If your child exceeds his budget on Monday and gets extra money from you on Tuesday, he will miss a chance to learn to make his dollars last. It's important to resist rescuing your child when he's mismanaged his money. We all learn through trial and error, and losing the relatively small amount of an allowance is a low risk way for your child to mature when it comes to money.
- Some parents insist that an allowance be divided into categories of spending, saving and sharing, consistent with their own beliefs about how money should be used. At the very least, your child, should be saving ten percent of his money.
- If you do decide to give a loan, charge interest just like a credit union or bank would. Learning the concept of debt and interest now, will help your child avoid the credit problems that are so common during the college years.

Re-evaluate your allowance system every six months or so and talk over your arrangement with your child. You can review how they have been spending and saving their dollars and discuss possible increases.

The financial counselors at First Sun EAP can offer you and your family guidance with planning, budgeting and other factors related to making good family decisions. We can talk with you over the phone or meet with you in person. Give us a call toll free, **1-800-968-8143** or in Greater Columbia, **(803) 376-2668**.