

The Smarter Way To Pay Your Kids An Allowance

Many of us tiptoe around the subject of our children's allowance or approach it with wishy-washy ideas, often learned from our parents and grandparents (who may have wanted the best for us, but didn't necessarily give us good or usable information about money). I see allowance as a wonderful tool that you can use to teach a phenomenal amount of information about finances and wealth to your children.

The word allowance in the dictionary means "A sum of money or goods given regularly to family members." The definition is so vague and the terms "given and regularly" are the problem. What it should say is, a predetermined amount of money or goods given to a child for certain services performed on a daily basis. If they do not provide these services they do not receive payment.

We are raised with financial ideas and philosophies passed down through generations. Often we just take these ideas and teach them to our own children simply because that's what we learned, and what everybody else does – even if it's not what's true or works best.

I am challenging you to begin to break this cycle now, with your children. You CAN make a difference in your child's wealth – now and in the future.

Are You Worried About Your Child's Financial Future?

Since I started learning about financial literacy, I have struggled with the wide variety of

information and opinions about allowances, and how much of what is out there is actually detrimental to building a child's financial future.

It seemed to me that I had something to say about this subject, but like many of us, I wanted some validation that my thoughts about allowances were not only valuable but were shared by others. One day I sat down and intuitively opened Robert G. Allen's "Multiple Streams of Income" directly to an excerpt from "Kids and Cash" by Ken Davis and Tom Taylor. The excerpt was an explanation of how one exemplary parent – billionaire John D. Rockefeller – taught his children to value money, and confirms the merits of having/letting children earn their allowances.

Here is that passage:

How a Billionaire Pays an Allowance

Billionaire John D. Rockefeller, Jr. was certainly not trying to save money when he decided to pay an allowance to his five sons. According to son Nelson, "We got 25 cents a week, and had to earn the rest of the money we got." To earn part of that extra money Nelson raised vegetables and rabbits. According to him, "We [the five brothers] always worked." Rockefeller required each of his sons to keep personal daily account books. They were required to give 10% of their income to charity, to save 10%, and to account for all the rest. They had to balance their account books every month and be able to tell what happened to every penny they earned.

Nelson went on to serve as Governor of the state of New York for many years, and ultimately became Vice President of the United States. One of his

brothers, David Rockefeller, Chairman of the Chase Manhattan Bank says, "We all profited by the experience – especially when it came to understanding the value of money."

As the Rockefellers have demonstrated, it is never too early for a child to learn about money and how to earn, manage, appreciate, and account for it.

How Much Does My Child Need?

When I read about the Rockefellers, I was so excited! Here was a very wealthy man who taught his children to learn the value of money through earning an allowance. The lesson is when a child earns his money he tends to value it more, and will spend it much more wisely.

Figuring out how much to pay your child is easy. Beginning now, write down how much you spend from this point forward on things that are not "necessities". Things like candy, trinkets, toys, CD's or tapes. Also write down the things that your child asks for that (would) require that you spend money. To the best of your ability, write down what you have spent on these things in the course of the past month for each of your children. Keep this list in a place where you can easily update it and refer to it. Write down any thoughts about this that this exercise brings up to you. When you have finished your list add up the monthly total, then divide it by 30. This is the amount you spend on average on your child per day. Use this amount as a guideline for how much you will pay your child, it has worked well for me, because I know my children now have enough to buy the things they want, and the things that I had previously bought for them.

Which Way Do You Pay An Allowance?

Like many parents, you probably struggle with the idea of an allowance. There are so many ideas about the reasons for giving an allowance; at what age children should start to receive an allowance? Should allowances be given freely or should they be tied to tasks and/or achievements? How frequently should allowances be given? All of these thoughts make it rather difficult to weed out what is right for you and your children. I will help you uncover the secrets of how best to give children money in a way that will teach them to be financially savvy.

I believe in empowering children by focusing far more on possibilities than on limitations. I also believe that the most important aspect of an allowance is how it can be used to teach your child something that he or she will carry with them throughout their life. I hope that these lessons will empower you to help your child learn real-life lessons not just from information but also from experience.

Money For Nothing

Here's a scenario that happens far too often:

Child: "When do I get my allowance?"

Parent: "What did you do for an allowance?"

Child: "I don't know, but you owe me an allowance."

I believe that giving a child an allowance for nothing is harmful. "Free" allowances create an attitude of entitlement ("you owe me something for nothing") that will last all of your child's lifetime, and will haunt you during yours.

Have you ever been in a store where an employee does absolutely nothing to help you – he or she is working only to collect a paycheck, but could care less about the customer, the boss, or the products they sell? They do not understand the concept of earning one's money. This may not be directly related to allowance, but it is related to "entitlement." They think: I can be here and do nothing and still get paid.

It is well known that when someone gets something for nothing, they don't appreciate it as much as if they had earned it themselves. If you give your child an allowance for nothing, they will learn to take money for granted.

Money By Virtue Of Age

Some parents prefer to give their child an allowance according to their child's age. This is somewhat better than giving an allowance for nothing, but still problematic, because most parents that use age as their criterion for giving an allowance often do not give enough for their child to do anything worthwhile with the money.

These days, a simple purchase like a music CD or a kid's video can cost \$20 or more. If you give your very young child only a very small amount because of his age, how quickly will he be able to make such a purchase? If it takes too long, he will likely end up buying candy and junky, inexpensive toys in order to get quicker gratification. And your children will learn "poverty thoughts." Whatever it is your child wants will appear too expensive, and lead to thoughts that he or she can never have what they want. With such thoughts, they may feel if they can't afford what they want, then how can they possibly give, invest, and save first.

If you don't want to teach your child to grow up with "poverty thinking," make sure that if you give a child an allowance according to his age the money is large enough for them to use the 10/10/10/70 concept and still buy things they want.

Money For Services Rendered

My personal favourite way of dispensing an allowance is to pay children for services rendered. I especially like this approach because it can begin at a very early age – as soon as your child can recognize that money has relative value, i.e. that a dime is worth more than a nickel. Relating an allowance to services rendered helps your child to understand that when they provide a service, they get paid for that service, and the greater their service, the greater their pay.

Not only is this a good way of warding off an attitude of entitlement, it is an incentive for a child to think about ways to make money. They will realize that if they want to be financially wealthy and be able to buy the things they want, they will have to be creative in providing services that produce income. Another advantage of tying an allowance to services rendered is that it will teach your child to value their money. They will be more likely to put more thought into what they spend their money on than what they'd be willing to spend your money on.

The Value Of Money

As a parent, you are likely your child's only source of money, other than gifts they receive from friends and relatives on special occasions. What you choose to do regarding an allowance will have a profound and lasting impact on your child. I encourage you to become a parent who

instills in your child the value of money by doing the following:

1. Begin helping your child learn the relationship between money and the value of service by tying an allowance to services rendered. Begin as soon as your child understands the relative value of money (a dime is worth more than a nickel). In this way, you will teach your child that service of greater value warrants a larger reward/payment.
2. Begin using the 10/10/10/70 concept from the very beginning. As soon as you give your child his or her first allowance, begin using Money Mama Piggy Bank or your own containers to start practicing giving, investing, and saving as part of creating net worth and becoming wealthy.
3. Use an allowance to instill the value of money in your child. Since they'll be spending their **own** money and not **yours**, I promise you; from this point on they will think twice about what they spend their money on.

Allowance is one of the keys to healthy financial literacy. Children can easily learn that if they want more money – regardless of the reason – all they have to do is come up with a way to earn it. It is never too early to start teaching children about money, money management, and the 10/10/10/70 concept.

How To Pay An Allowance

Each family has their own income bracket, and every family determines how much to spend on each child through the month.

Let's break down how much you spend on your child.

As an example, imagine that you spend \$50 on your child each

month for "non-essential" items – those other than clothing, food, etc. Divided by 4, this is approximately \$12.50 per week; and divided further by 7, approximately \$1.78 per day.

Earning An Allowance

I propose that if this were the case, you should give your child the opportunity to earn an allowance of \$50 per month – the amount you are already spending on him to buy things he wants, but does not necessarily need. When you spend this \$50 monthly, he is influencing you about how you spend **YOUR** money. When he earns this \$50 instead, he learns that he must decide for himself how to spend **HIS** money, and this will have an invaluable impact on his learning the value of money and the effect of his choices about money.

What do you pay your children for?

As a parent, you must decide what ways you deem are appropriate for your child to earn money. Some parents choose to reward their child for regular chores.

Some parents, therefore, reward their child only for "extra" chores. For example, putting the bike away after riding each day would be a regular chore, but pitching in to help with or do the big clean-up in the garage would be a paid activity, where the child could, for example earn \$12.50 that week.

Some parents help their child figure out a way to earn money by creating a small business, including helping neighbours with chores that they are willing to pay for. By helping your child earn an allowance, it becomes a learning tool for him. And it doesn't cost you a penny, since the amount you help him to earn is equal to what you have determined that

you are already spending on non-essential purchases for him.

How I Reward My Children

In our family, we reward our children for their daily chores. I am aware that my children must do these things on a daily basis anyway, whether they receive payment or not. It is part of their daily hygiene and taking care of family needs. But after learning that simply asking – or demanding – proved ineffective and often frustrating in getting our children to do their chores, we tried tying their chores to their allowances, and it has proven very effective in our family.

I have created a list of over 80 chores that children do or can do (supplied at the end of this document). From this list, our family chooses the specific daily chores that would be tied to each child's allowance.

We have discussed this extensively with our children. Our kids understand that:

Their allowance is tied to each specific chore. For example, they get 25 cents for getting up on time, and 25 cents for making their bed. If they get up on time, but don't make their bed, on that day they make 25 cents instead of 50 cents.

Their allowance is tied **ONLY** to the specific chores we have agreed upon. Our kids know that there are many chores to be done for the family, and that they are expected to pitch in "for free" with all of the other chores than the ones tied to their allowance, because we all benefit by helping each other.

We Are The Adults, And Their Parents

Although they get to have (significant and meaningful) input,

ultimately we as parents make the final decisions about what chores are tied to allowance. They can't just decide to boycott or to tell us that they won't do a chore because they don't get paid for it.

If they want to make extra money because they want something more than their allowance will buy, they must think up other ways to make money, or ask us to help them think up other ways to make money. We determine each year whether to raise their allowance, by how much, and to what chores this raise is linked.

Interestingly, this approach has resulted in many significant benefits to our family, three of which are:

1. Our children do their chores. It seems that they are interested enough in receiving their total allowance each month that this is incentive enough to do their chores.

2. Our kids understand "cause and effect" when it comes to money. When they do the chores for which we've agreed they'll be paid, they get that portion of their allowance. When they don't do their chores, they don't get that portion of their allowance. There is no emotion involved, and no "punishment" or "reward". It is a simple equation – "Make your bed and earn your 25 cents; don't make your bed and don't make your 25 cents. You choose."

3. We don't get upset with our kids about their chores. Mostly, they do them, so we're usually quite happy. But when they don't make their bed, instead of getting angry we simply don't pay them that portion of their allowance. Everyone understands how this works, and it seems to work well for all of us.

Creating An Allowance Formula

You can decide to pay your child for one chore or 10 chores, explaining to her that for doing each one of these chores on the list she will earn money. It is important to explain that as a member of the family everyone (including her) is expected to contribute to all of the family chores without pay, but that you are tying some specific chores to her allowance as a special lesson in money and money management. You will want her to have some say in what chores she chooses, although you will want to be the one to determine the final list and set the amounts associated with each chore. Explain that this is a privilege, and that if she attempts to abuse it you will take it away.

Let's continue to use our \$50 per month example. We'll also imagine that you want your child to earn about \$1.78 each day. Here is an example of some chores you could choose:

Morning: Waking up on time: 25 cents. Brushing/flossing teeth: 25 cents. Combing hair: 5 cents. Getting dressed: 25 cents. Making the bed: 25 cents.

Afternoon: Doing homework: 25 cents. Cleaning room: 25 cents.

Evening: Going to bed on time: 25 cents.

What Happened When We Began Paying Allowances For Chores

You might be able to imagine this happening at your house. Or perhaps it already does:

Everyone is getting ready in the morning. We've asked our children several times: "Did you brush your teeth?" We've yelled out: "Hurry up and get dressed. We have to leave!" "Comb your hair!" "Do you have your stuff for school?" Even though they know

what they're supposed to do, we have to continue to remind them daily. It gets pretty frustrating asking over and over again. That's the way it used to be at our house.

When we switched to tying some specific chores to allowance, we explained to our children that when they did the chores on their allowance list they would earn that portion of their allowance. Within days, they figured out that we weren't kidding. We weren't going to yell at them or fight with them any longer to do their chores. It was simple. If they didn't make their bed, they came to a messy bed, and more importantly to them, they didn't get the 25 cents that they would have gotten if they had made. (And we reminded them that we wouldn't be buying them the bubble gum from the machine any more – that 25 cents was part of their allowance, and when they had it they could decide if they wanted to spend it on bubble gum or something else.)

Everyone's mornings became smoother. Our kids stopped fighting us about what they did or didn't want or need to do. We no longer needed to ask them to do their chores. Our frustration diminished, almost entirely, and their willingness to do their chores without our prodding increased dramatically.

You May Be Thinking...

That tying allowances to chores sounds like a bad idea. What if I ask my child to do something and he says "What are you going to pay me for it?" Personally, because I have never heard a child actually say this, I believe it might be more related to our own adult fears than to children's realities. Still it is a relevant concern to address here.

If this happens, I suggest that you reply: "What I've just asked you to do is not on the list of things we've agreed I will pay you for. As part of the family you benefit by doing it too. We all do things for each other."

At times, you may also need to stress your authority as a parent and adult. You can remind your child that tying allowance to chores is a privilege – an opportunity to learn about money and money management – and not just paying for whatever she does. In essence, what you give as an adult and parent, you can also take away, and you have the right to remind her of that in a loving way.

Your Values And Choices

I have described how and why tying earning an allowance to a specific list of pre-determined daily chores works in our family. But I realize that your values might be different. This will affect what choices you make about giving an allowance, but, ultimately, I encourage you to discover what works for you with regards to having your child EARN the money that she uses for her own discretionary spending, instead of just giving it to her as a gift, or spending it on her at the store. I want you to help your child learn how to use the 10/10/10/70 program, and that she must make her own decisions about how to wisely spend her own money (the 70 percent).

Discuss your values with your children. If you believe they must do chores without being rewarded than that is your choice. In that case, you might pick something that you would pay someone else to do and allow your child to have first choice on earning the money for it. This is especially important if you as his parent are your child's only source of "income."

As I stated earlier, you might also want to help your child figure out a way to be in business for herself. There are plenty of books available that present ideas for children's businesses or for businesses that parents and kids can do together.

When Your Child Understands Choices

I will only buy my children necessities such as food, clothing, shoes and school supplies. If they want to buy merchandise and impulse items like CD's, video games or candy, they must use their own money that they have earned. This forces them to think about their purchases. From my own experiences, nine times out of ten my children will not purchase items that they would normally want me to buy for them if they have to use their own money to buy the same thing.

So whenever my children want something at the store, I tell them, "Sure you can have that, but you need to use your own money." At which point I usually get a reaction like, "But I don't want to waste my money." Then I just laugh and say, "Well, you're not going to waste my money."

If they decide that they really want that particular item, they will buy it. But trust me, they will always think twice about what they spend their income on. If they find something they want and do not have enough money, then they understand they must either find a way to earn more money or save the money they do earn.

When your child must determine how to spend her money, she becomes a better consumer. She's far more likely to take a moment to think if she really wants something. When she spends her money, she sees it dwindle, and knows exactly where it went. I have my children save

their receipts. They know that they can take the item and receipt back to the store and exchange it or get their money back, as long as it is in the same condition when they purchased it. When your child is responsible for his own purchases, he learns that sometimes he buys junky items that will break and sometimes he buys things that last. He learns to account for what he spends. These are invaluable skills that will become ingrained and prove beneficial for a lifetime.

The two previous lessons have been dedicated to the value of allowances, and the values associated with paying your child an allowance in association with a list of tasks that you choose. The essence of this is that allowance is not based just on money itself. Instead, allowance is the principle. CHORES are the vehicle. Your child does the ACTIONS.

And money is the RESULT.

When used this way, allowance becomes a way to teach your child the value of money, and the lessons associated with it. I have stated how important it is that a child uses her own money in harmony with her own decisions. This applies to how she uses her money for charitable giving, investing and saving as well as what she decides to purchase for herself. Using her own money to buy what she wants will provide important lessons in the value of money, in math, and in becoming a wise consumer.

Money And Goal Setting: Start With The End In Mind

Before I provided tips for determining how much allowance to pay your children, and how to divide that allowance among specific tasks that everyone agrees upon. Once your child knows how much allowance he

will be receiving, he can begin to decide how he will use his own money for purchases.

Let's use as an example that you agree that your child will earn \$50 in allowance each month. Using the 10/10/10/70 formula, \$5 of that will be set aside or used for charitable giving; another \$5 will go into savings; and another \$5 will be set aside or used for an investment. So \$35 will be available for your child to use for her own purchases. This breaks down to approximately \$8.75 per week, or \$1.25 per day.

With this information, you can help your child (or she can figure out for herself) how long it will take for her to have enough spending money to buy what she wants.

Let's say she wants to buy a music CD that costs \$15. You'll want to make sure that she knows that she'll have to pay sales tax (which at 13% is \$1.95) so the total is going to be \$16.95. At \$1.25 per day it will take her 14 days to earn enough to buy the CD. From this she can learn that with a month's allowance she can buy two music CD's (and still be left with a little money), or if she buys only one, she'll have \$18.05 left in that month to put toward another purchase sometime later.

By matching a purchasing goal to a budget, your child will learn how much time and effort she will need to invest in achieving what she wants.

How To Deal With Large Purchase Goals

What happens when your child wants to buy something more quickly than it will take her to earn the money from her allowance? Such a goal should not stand in the way of her getting what she wants. She just needs to think of

ways in which she can earn more money.

Let's say your child wants to buy something that costs a total of \$50, including tax. Using her own regular allowance of \$1.25 per day, it will take her 40 days to earn enough for that purchase. But we all know how anxious kids can get. Perhaps she'd rather have enough to buy it in only a month.

She knows that this month she'll earn \$35 in spending money. She'll need to earn \$15 more spending money, which means that in keeping with the 10/10/10/70 formula that in total she'll need to earn \$19.50.

There's an old saying that the way to eat is elephant is one bite at a time. So break it down, \$19.50 divided by 4 weeks = \$4.89 a week, or only 70 cents a day! That will be a much easier goal for your child to imagine and work toward than thinking about it only as the total amount.

Of course, your role is to then also help your child discover ways in which he can earn that 70 cents a day. It's exciting to watch a child set a goal and then use his imagination to figure out how to achieve it. Remember, you can't use the chores that you have agreed are part of his regular family responsibility and that you've already agreed he doesn't get paid for. This would be a setback to the allowance system you've set up. Instead, both of you might decide upon some extra things he can do around the house, that you would otherwise be paying someone else to do. Or you can figure out some things he could do in the neighbourhood, or something he owns that he can sell. The possibilities are endless.

Becoming A Wise Consumer

When a child makes his own purchases, he learns more about the quality of what he buys, and it becomes more important to him. After all, it's HIS money he's spending.

This is the beginning of teaching your child the importance and value of accounting. She'll be able to account for what she has spent and know where her money has gone.

When your child buys anything with her money, have her put her receipts in a special place. My kids put their receipts in the 70% portion of the piggy bank. If something happens to an item they buy, they're able to take the item back (with the receipt) and exchange it or get a refund.

Here's A Story About How My Son Learned An Invaluable Lesson

Recently my son had saved enough to buy a remote control boat. As soon as we bought it, we rushed home so that he could begin playing with it. We assembled it, put it in the water, and got to playing. But within half an hour, the electrical parts had gotten soaked and the boat stopped working.

We did everything trying to get it up and running again, but to no avail. Finally he turned to me and said, "What a piece of junk! I just wasted my money!" When I asked him if he had his receipt, his eyes lit up and he ran to the piggy bank and got it.

We went back to the toy store and he returned the boat. When he told the cashier that the boat had simply stopped working, she turned to him and said, "Yeah, we get these back all the time." The look on my 7 year old's face was amazing. He received his money and said to me, "Dad, why would they sell something that they

know will break?" I told him that maybe they hope that people won't bring it back, and asked if he wanted another one to replace the one he'd returned. He responded, "No way!"

We walked out of there with two trucks, and money left over. This lesson – which now lives indelibly in my child's mind – would not have had the same impact if it was my money that had bought the boat.

Daily or Weekly Chores

- Clean bathroom
- Behave in public
- Clean like parent
- Help grocery shop
- Clean windows
- Brush/floss teeth
- Empty trash cans
- Put dirty clothes away
- Take bath/shower
- Clean pet's cage
- Help make dinner
- Empty dishwasher
- Stop when asked
- Baby-sit sibling
- Load dishwasher
- Make breakfast
- Acts of kindness
- Plan menu for week
- Wake up on time
- Clean off dishes
- Wash pet
- Use good choices
- Get ready for bed
- Bring trash cans in
- Wash/dry laundry
- Get dressed
- Clean kitchen
- Help neighbour
- Walk the dog
- Dust furniture
- Do homework
- Extra credit
- Water plants
- Clean out car
- Clean floors
- Good manners
- Put toys away
- Vacuum
- Make bed
- Comb hair
- Wash car
- Feed pets
- Clean room
- Set table
- Brush dog
- Clear table
- No whining
- Make lunch
- Read a book
- Pull weeds
- Do something without being asked
- Fold/put away laundry
- Put away outside toys
- No fighting with sibling
- Go to sleep when told
- Help put groceries away
- Organize closet, toys or drawers
- Clean out lunchbox or backpack
- Monthly book reports
- "Bonus Dollar Days"
- "Mystery Chore" – parents pick a chore and write it down and put it in an envelope. During the week if the children have done that chore when asked they receive an extra dollar

If there is anything I have missed, please let me know and I will include it on the list for other parents to enjoy. Have fun teaching your children the valuable lessons of earning money.