

# ALLOWANCE: TEACHING CHILDREN FINANCIAL RESPONSIBILITY

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Whether your family is financially comfortable or your budget is tight, you need to help your children develop money management skills so that they can grow up to be successful and responsible adults. No matter how much or how little money your children earn as adults, they will need to know how to live within their means to avoid money problems.

An allowance gives your children experience with managing money, setting spending priorities, and budgeting for expensive items. It not only helps them to appreciate the power of money, but also the limits and consequences of fiscal behavior.

## When Should My Children Begin to Receive an Allowance?

A good time to start an allowance is at the age of 6 or 7, when children begin to learn about money in school and understand the abstract value of money—that a dollar bill equals four quarters or 10 dimes. Preschool children are typically too concrete to think about money in these terms. They should have basic counting skills and be able to recognize different coins and their values. They should also be aware that money can be exchanged for items they want to buy.

## How Much Allowance Is Enough, But Not Too Much?

"Enough so that your children can squander it, but not so much that you'll be upset when they do," advises Janet Bodnar, who writes the "Money-Smart Kids" column for the *New York Times* and *Kiplinger.com*. That is, children should receive enough to make some meaningful decisions about what is important to them, but they should not get more than they are comfortably able to manage. Some experts recommend a rule of one dollar per week for every year of a child's age, but that tends to be too much for younger children. Parents feel more comfortable starting with a weekly amount equal to half a child's age as a base allowance, and adjusting that as necessary. The 2003 Yankelovich Youth Monitor Survey reported the following average weekly allowance for children in the United States: 6–8, \$6.00; 9–11, \$8.00; 12–14, \$11.30; 15–17, \$19.30.

How much allowance you give depends on the age of your children, the tasks you want to entrust to them, and the financial values you want to encourage. Young children can manage budgeting for toys or discretionary items, but children may need to be about 10 or 12 before they are ready to budget for a week of school lunches. Middle teens (15 or 16 and older) may be prepared to budget for their own clothes. If you want to instill the values for charitable giving and long-term saving for major items such as a car or college education, your allowance structure and amount will need to take this into account. Make a list of your child's expected monthly expenses (including investments and donations) as well as sources of income (allowance, gifts, work for pay) to see if they are in sync.

## How Often Should the Allowance Be Given?

For most children, a weekly schedule gives parents some control and also helps children manage their money more closely. It also encourages the children to save for big items and prevents them from squandering all their money at the beginning of the month and then begging through the rest of the month. However, older teens (age 14 and older) may benefit from learning to budget their money across two-week or monthly periods to simulate the pay schedule of adults.

## Should Children Earn Their Allowance?

It is important for children to learn to *earn* money. However, many parents consider chores to be their children's contribution to the maintenance of the family and home, and there should be no pay for

these tasks. It seems less complicated and cleaner to keep allowance and chores separate. Differentiate between which jobs are not paid but rather are expected to be done to help the family and which jobs may be done to earn extra money over and above the regular allowance.

### Should Allowance Be Withheld as a Punishment?

In general, withholding allowance as a punishment is not a good idea. This issue is likely to come up in one of three types of situations:

- Your arrangement says that allowance is earned by completing chores, but your child did not complete all the work. In this case, a pre-determined fee schedule will set the amount for how much each chore is worth. Some parents use an all or nothing arrangement: A child has to complete all chores to earn any allowance. In either situation, however, you can run into the problem of children who decide that they need their allowance that week, and so decline to perform the work. (This is another argument for keeping chores and allowance separate.)
- You are upset with your child's misbehavior unrelated to chores or to any monetary damage (staying out past curfew). You withhold allowance to impress upon your child how much that behavior upsets you. In this case, withholding the allowance will confuse the rules about your allowance arrangement and may seem unjust to your child. It may be best to look for some other consequence that is logically tied to the misbehavior. In the case of staying out past curfew, for example, the child may be grounded from going out at night for a period of time.
- Your child owes you money, possibly because he or she has borrowed money or has broken something that needs to be fixed or replaced. In these situations, it may be best to pay the allowance according to your regular arrangements, and then have your child pay back whatever is owed to you. This works for two reasons. First, when you pay the allowance you are demonstrating *your* fiscal responsibility and sending a message that you can be trusted to keep your end of the deal. Second, when your child reimburses *you*, then your child is also practicing responsible behavior by paying the debt. It feels more real when actual money changes hands.

### Resources

Bodnar, J. (1999). *Dollars and sense for kids*. Washington, DC: Kiplinger Books. ISBN: 0938721674.

A practical and enjoyable read about a broad range of financial issues for children, from allowance to jobs to savings and college plans, with chapters that address financial issues at each age level.

McCurrah, D. (2000). *Kids' allowances: How much, how often, and how come*. Franklin, TN: Kids' Money Press. (Available from the publisher at [www.kidsmoneypress.com](http://www.kidsmoneypress.com))

This book offers suggestions on allowance and chores from parents and from experts on children's finances, as well as survey data on average allowance amounts. A companion workbook, *The Allowance Workbook for Kids and Their Parents*, offers worksheets for budgeting and for making allowance arrangements.

Pearl, J. A. (1999). *Kids and money: Giving them savvy to succeed financially*. Princeton, NJ: Bloomberg Press. ISBN: 1576600645.

A comprehensive book on all aspects of finances for children; the information on allowances is brief but thorough and insightful. Also available in audio cassette.

Lakeshore Learning Materials. *The Allowance Game*. A fun way for children to learn about savings. Call 800-421-5354 for more information about this popular game.

Your local bank. Many banks have information on saving for children and bank officers who work specifically with children's finances.

### Website

Kids' Money—[www.kidsmoney.org](http://www.kidsmoney.org)

Many links to books and other resources for parents and children regarding financial responsibility.

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