

Creating an A+ Allowance Plan

Should kids get an allowance? We tell you how weekly spending money can help your child now and later in life.

By Marnell Jameson

When chairman of the Federal Reserve Board Alan Greenspan took the stage earlier this year to address a group of experts about the importance of consumer education, adults weren't the only demographic he had on his mind. Improving children's basic financial skills as early as the elementary school years, he stated, "can help prevent [them] from making poor financial decisions that can take years to overcome."

Why all the concern for those who still stash their cash in a piggy bank? Last year, children ages 4 to 12 had an annual income of almost \$30 billion. They spent \$27 billion of it.

With the downturn of the economy, parents hope their kids will be careful -- perhaps more cautious than they themselves have been -- in saving for the future. Parents are also fearful of promoting mindless materialism now that the recent terrorist attacks have shown how fleeting tangible possessions can be.

Experts agree that one way parents can teach their children financial skills is through an allowance. "Today's kids are aware of money at an earlier age than any other generation before them," says Don Blandin, president of the American Savings Education Council in Washington, DC. "An allowance can give them real-life experience in handling money while the stakes are small."

Dara Duguay, executive director of the Jumpstart Coalition for Personal Financial Literacy in Washington, DC, also applauds early involvement, stating that the sooner parents include children in money matters the better. According to a recent Jumpstart nationwide survey of 1,500 high school seniors, only 10% learned about basic personal finance concepts like credit cards and stocks in school. "The others don't get enough practice," she explains.

Part of the reason for that may be that about half of all parents of children under 12 don't give an allowance, thereby missing an ideal opportunity to teach the kind of financial skills that schools rarely do, says Blandin. "Kids are bombarded with messages to consume, and we can't have them growing up thinking money simply comes out of the wall courtesy of a plastic card."

Controlling the Gimmes

Giving kids an allowance also offers payoffs for Mom and Dad, says David McCurrach, a Franklin, TN-based financial services expert and author of *Kids' Allowances: How Much, How Often, and How Come*. "If kids always have to ask their parents for a candy bar or a CD, they learn a lot about how to manipulate their parents and nothing about how to manage money," he says.

Many parents report that once they implement an allowance system, they spend less money on their children and the whining for toys stops. McCurrach's wife started giving their son, now 22, an allowance when he was 3. "He wanted action figures at the store, and my wife was sick of his hounding her for them," he recalls. "So she started giving him \$2 a week. The figures cost \$4 each, and he'd save up to get the ones he wanted."

Suzi Prokell of Richardson, TX, says that when she used to take her sons, Jacob, 5, and Ryan, 3, shopping, the boys would wander the aisles looking for things they wanted, then expect to get them on demand. Now that she gives them an allowance (\$3 a week for Jacob and \$2 a week for Ryan), she tells them they can buy any toy they want -- with their own money.

"They have completely calmed down," she said. "They know they have to wait and save up for things."

Of course, kids won't become financial gurus overnight, but mistakes are an important part of the process. Elizabeth Pusey, a Newport Beach, CA-based physician, gives 8-year-old Alexander \$3 each week and 6-year-old Laura \$1 a week. She started giving them an allowance so they would make their spending missteps early, while the stakes were low. "I'd rather they buy a piece-of-junk toy now and realize they wasted their money so that later on they'll be more careful with their purchases." Blandin concurs: "Better to lose \$10 now than \$10,000 later."

Alison and Evan Dubchansky of Bel Air, CA, were 7 and 5, respectively, when they began getting an allowance four years ago. They initially received \$1 each per week, and now Alison gets \$2 and Evan \$1.50. "I give them a nominal amount because I think it's important for them to learn how long it takes to earn something," explains their mother, Laurie, a homemaker and philanthropist. At the time, both her children were really into Beanie Babies. "I wanted it to feel as though it took weeks to get one."

For the Dubchanskys, as with many families, the concept of allowance is a win-win. "I love it because it teaches them how to use their own money as well as how to save for a goal," Laurie says. Even shopping becomes an educational experience for her kids. "Whenever they buy something, I have them estimate how much tax will be on the item and how much change they're going to get back. It takes practice and patience, but I want them to pay attention to these things."

Parents can also use the allowance to teach relative value in a society that is obsessed with the latest trends and name brands. Mitch Picciano, who lives in Oakton, VA, created

a partial-pay method to teach his ninth-grade son about buying designer labels. "If he wants an American Eagle shirt for \$25, and a regular shirt of the same quality but without the emblem costs \$15, I'll offer to pay \$15. If he wants to pay the difference, that's totally up to him. Now I notice that when he's deciding between Nike shoes for \$65 or a lesser-known brand for \$30, he would much rather save the extra \$35."

How Much Is Too Much?

Giving an allowance is not without its complications, however. Parents walk a fine line between giving kids enough to manage and discouraging excessive consumerism. Factors to consider include what the child is expected to pay for, her age, the family's standard of living, and where they live, says Celia Hayhoe, Ph.D., a certified financial planner and an assistant professor of family studies at the University of Kentucky in Lexington.

"A child living in a big city will need more than one living in a small town because the cost of living in a large city is higher," she says. Also, older kids usually need more and are able to manage more. Hayhoe recommends that parents talk to others in their social structure and area. "You don't have to keep up, but you do want to be in the same ballpark."

But some ballparks may overpay. Jeffrey Marsh, Ph.D., a psychologist in Beverly Hills, sent his three sons to private school, where some children received phenomenal amounts, he says. For example, while he was giving his boys \$5 to \$10 in elementary school, other kids were getting three and four times that amount; \$20 and \$40 weekly allowances were not unusual.

"It would have been impossible to keep up," he says. "Besides, it's not a great idea to overload kids. If you give them too much money, the point of learning to manage it is lost."

Jessie O'Neill, a Milwaukee-based psychotherapist and author of *The Golden Ghetto: The Psychology of Affluence*, says that huge allowances are part of a disturbing trend she sees among parents who both work and try to buy out of their responsibilities. "They give their children lots of money, thinking it will take the place of time, love, attention, and family activities," she says.

Parents may feel tempted to buy toys or clothes for their kids to catch them up to their playmates, but that's a slippery slope best avoided, Dr. Marsh says: "You'll always be around those who have more than you do."

Instead, you can use these situations as the starting point for family discussions about wants, needs, values, and reality. When Marsh's 10-year-old son wanted an electric scooter like his friend's to replace his manual one, for example, Marsh got him to talk about his frustration. "These are not times for lectures on ingratitude," he says. "Just let the child talk without taking pot shots. Then explain your situation. You might say, for instance, 'We do better than most families, but not as well as some. We have to do what's

right for our family." Or suggest that if your child really wants that scooter, he save his allowance for it.

When Joan Indursky DiFuria's two boys, ages 12 and 8, ask for things because other kids have them, she turns the discussion to the family's values: "I ask whether we look up to people for who they are or for what they own," says DiFuria, a psychotherapist and cofounder of the Money, Meanings and Choices Institute in San Francisco. And the strategy works: "Recently, my older son was raving about a really expensive item that he wanted, but then he said that it would be a waste of money."

Lessons in Helping Others

Paying children an allowance also provides parents with a great opportunity to encourage the spirit of generosity. A 2000 Cone/Roper survey revealed that an overwhelming 85% of Americans believe that kids should be introduced to charities by the time they're 13. However, almost 70% of the respondents reported that their children did not participate in charitable activities. "Any allowance that's given to a child without some goals, expectations, or consequences is valueless," says DiFuria.

Blandin agrees. When he started to give his two children an allowance, he sat down with them to suggest ways they could manage it -- and that included donating part of the money. "They volunteer at a homeless organization and use some of their allowance to buy things like warm clothing to donate," he says.

Robert Kiyosaki, author of *Rich Dad, Poor Dad: What the Rich Teach Their Kids About Money That the Poor & Middle Class Do Not!*, suggests a three-piggy-bank system: one bank each for saving, investing, and charity. For every dollar received, the child puts 10 cents in each bank and the remaining 70 cents in her pocket. "If you learn early on that you can live on 70 cents just as well as you can on \$1, that lesson will stay with you for life," he says.

The DiFuria kids routinely give 10% of their allowance to charity. For the past seven years, DiFuria's sons have taken their allowance money to buy food, which they then deliver to a homeless shelter in their area. She prefers that her children experience tangible -- rather than simply virtual -- giving. "Going to a shelter has a much greater impact than sending a check," she says.

The hope is that if parents play it right now, the lessons that an allowance can provide will stick with their kids into adulthood. True, parents can't do much about the twin trends of aggressive marketing to youngsters and kids wanting more as a result. But they can arm their kids with the financial and psychological wherewithal to combat those trends.

"From very early on, we need to teach our kids that the American dream -- that money buys happiness -- is a myth," says O'Neill. "Happiness is an inside job."

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