

Using Allowances to Teach Good Money Habits

Recently, the American Institute of CPAs surveyed parents who give their children allowances. Unfortunately, the news isn't great. Out of those surveyed, it was found that 61% of parents pay their children an allowance which, on average, is \$15 per week (\$780 per year). Less than 1% of those parents said their children save any portion of the money they get. Most parents found that their children spend the money as quickly as they receive it.

Today's generation of children are being taught a lot of things and are expected to have good manners, good eating habits and great grades. However, one area that parents are forgetting to cover is good money management.

There is nothing wrong with paying your child an allowance, but use the opportunity to teach your kids money management skills that they can use throughout life. If they learn smart money habits when they are young, it will help them become financially responsible adults.

Savings and Setting Goals:

Teaching your child how to save from a young age will benefit both of you. On average, parents start paying their kids an allowance at the age of 8. If a child gets paid \$15 a week from age 8 to 18, they will have earned \$7,800. This would have been enough to buy their first car, put money towards college or both! It is understandable for your child to spend some of their allowance on outings with friends, video games and new clothes. But, make sure they get used to saving a portion each week. As adults, we should be used to saving 10%-15% of our salary. This should be the standard for children as well.

When teaching your children how to save, have them set short and long-term goals. This will give them something to look forward to and teach them you need to work for what you want.

Budgeting Skills:

If your child is involved in activities like sports, dance or music, teach them about the cost of the activities by having them partially fund their involvement. Even if they only contribute \$5-\$10 per activity, it will show them how costs add up. Same thing with cell phone bills and other technology costs.

Sit with your child and develop a budget spreadsheet. Show them how to track how much is being earned, saved and spent. The basic concept of budgeting will help them down the road when they are earning larger paychecks, have more expenses and want to set higher savings goals.

Work Ethic:

Paying children an allowance is a great way to reinforce a strong work ethic. Don't just hand over money each week. Make them work for it. It could be things like basic household chores, small home improvement projects or you could pay a bonus for extra credit in school. Teach your children that you need to work hard for the money that you earn and you have to work even harder if you want to earn more.

At Align, we understand the importance of financial education and teaching smart money management skills.

If you have any questions, call Align at **800-942-9575**.