

## Use Allowance to Teach Kids Positive Money Habits

*(Ghostwritten for a financial planner, published as a newspaper column)*

If you have children, you may sometimes wonder how much you should give them for an allowance. A new survey by the American Institute of CPAs sheds light on the average amount, and the AICPA also provides some good advice on how to use allowances as a teaching tool to instill good money habits.

The survey of 1,002 adults, taken in August, shows that two in three parents give their children an allowance, and that the average allowance today is \$30 a week. No, that's not a typo – the average kid's take has jumped 38 percent since 2016, when the average weekly allowance was \$17 a week, according to the AICPA.

Four out of five parents expect their children to do some chores in return for the dough, with the average child spending about 5 hours a week on chores, for an average "wage" of about \$6 an hour.

So far, so good. Linking allowance to chores is a clear way to teach children the value of money and the purpose of work.

Parents should also use allowances to teach children about saving their money, and in this area American parents are fumbling the ball: Only 3 percent of survey respondents said their children primarily save their allowance. They spend it on outings with friends (45 percent), digital devices and downloads (33 percent), toys (33 percent), clothes and shoes (27 percent), and necessities (24 percent). (The percentages add up to more than 100 percent because parents could choose more than one spending category.)

This represents a major opportunity missed. Parents should insist their children save a set portion of their allowance every week. Here are some of the benefits youngsters receive when they save money:

- They learn to postpone gratification, the essence of discipline.
- They develop an ability to plan for the future, the basis of financial responsibility.
- They learn the power of compound interest, a foundation of money management.
- They are introduced to banking, another part of sound money management.
- They learn to set goals, a pillar of financial planning.

If you want to use allowances to teach your children sound financial habits, here are some tips to remember:

**Be consistent.** Pay them the same amount on the same day, and don't give in to requests to pay early or add a little more for a special desire. The idea is to teach them responsible budgeting.

**Make them responsible.** Provide guidance and discuss the difference between wants and needs, and then encourage them to manage their own money by keeping a bank book and writing down financial goals.

**Deposit the money.** Rather than handing over cash, deposit allowances into a savings account in your child's name. That way they will need to withdraw the funds, which will help teach them about banking and hopefully help them stay on budget.

**Start early.** You can give a 5-year-old a weekly allowance of \$5, and then increase the amount as the years go by. The earlier you start teaching financial responsibility the better.