



Money Sense for your Children

Fact Sheet 06-94



Lesson 2

Where Money Comes From

Main Ideas

- \$ Allowances, gifts, handouts and earnings are the sources of money for most children.*
- \$ A child can learn more about how to manage money from a regular allowance than from unpredictable handouts, even when these handouts amount to more money.*
- \$ Giving children money whenever they need it or ask for it, instead of on a regular schedule, makes it hard for them to plan ahead.*
- \$ Earning money can teach children that money comes from time, skills and effort.*
- \$ When children receive money as a gift, unless it is a really large sum, they should be able to decide how to use it. Encourage them to save part of any large money gift.*
- \$ Earning money helps children become financially independent and helps them learn to make economic choices.*

Earnings – money received for jobs besides a child’s regular chores, either at home or away from home. It is the child’s “paycheck.”

Chores – work done at home on a regular basis as part of the responsibility of being a family member.

Gift – a present, usually for a special occasion such as a birthday or graduation.

Handout – money you give to your child to cover an immediate expense, whether it is bubble gum or gas money.

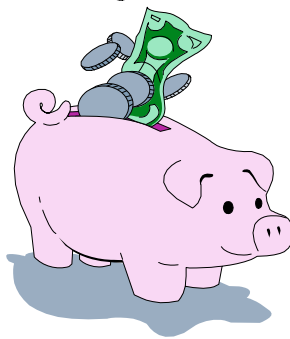
Key Words

Allowance – a specific sum of money given to a child on a regular basis to cover certain personal expenses.

Where Money Comes From

Where do your children get their money? Most children get money from allowances, hand-outs, cash gifts and/or earnings. Earning money is a valuable experience that should be encouraged, as long as it does not take too much of a child’s time. But children can’t earn enough to support themselves, and their earnings are often irregular.

An allowance gives youngsters a chance to manage money and practice living within a regular income as if they had a job.



This experience is most nearly like the adult world they will move into all too quickly.

Some parents feel that they really can’t afford an allowance for their children. It sounds like one more expense added to the budget.

But it doesn’t have to be an extra expense – in fact, it may save you money.

A good way to start is to keep a record of how much money you give your child in a typical week and what it goes for – school supplies and lunches, movies, ball games, concerts, magazines, video games, sports equipment, minor clothing items, grooming aids or cosmetics, snacks and so on. This is the amount that you’re already spending for your child, over and above the basic needs like food, shelter and clothing.

Try giving this same amount as an allowance, instead of in unpredictable handouts. It's not extra money going out of the family budget – it would have been spent anyway. But now the children will be learning how to manage money. With a regular income, instead of unpredictable handouts, they can learn to plan ahead for spending and saving.

The Allowance

For an allowance to work, parents and children must know what expenses it is supposed to cover. You may want to make a list of these expenses. Talk about how to handle overspending and other problems that may arise.

Some parents think of an allowance as a “wage” for the chores that children do around the house or yard. But if children think they must be paid for every bit of work they do, they don't learn much about the responsibility of being a family member. By giving them regular chores to do *without* payment, you teach them to accept their responsibilities and give them the good feeling of being a productive part of the family.

In the same way, children have a right to some share of the family income just by being members of the family. You give them part of that share by paying for their basic food, clothing and housing, and maybe other things like music lessons or participation in sports. If you give them another part of their share in the form of an allowance – an allowance that they don't have to “earn” by doing their chores – you can be teaching them good money sense at the same time.

Keeping chores and allowance separate also helps you avoid the potential problem of *the-sticker-*

Some Guidelines for an Allowance

Beginning with the first allowance and continuing as long as the child receives one:

§ *Be consistent.* Set a day to give the allowance as well as the amount. Remind the child of the savings plan and separate out that amount immediately. Put it in a safe place or take to the bank/ credit union.

§ *Don't use the allowance as a lever to discipline.* Withholding or reducing a child's allowance for bad behavior and increasing it for good behavior defeats the purpose of an allowance, which is to teach the basics of money handling.

§ *Don't link household chores with the allowance.* It is reasonable to expect a child, as a member of the family, to carry out tasks around the house consistent with the age of the child. Household jobs can be made fun! Sometimes a weekly, rotating schedule will eliminate the need for constant reminding.

§ *An allowance is money children can spend however they wish as long as their purchases don't pose a hazard, are age appropriate, and fit family values.* Children need practice making their own decisions – and they also need fun and “goodies” of their own choosing!

§ *Don't come to the rescue.* If children are ever going to learn how to manage money, they must face the consequences of their own spending mistakes. Even though it may be difficult to watch, try not bail them out if they have overspent.

and-stars syndrome coined by parent educator, Barbara Coloroso. She suggests that children can become used to doing chores for an allowance. They may refuse to do chores when they no longer need the money. Youth may also demand a higher and higher price to do the same chore.

Earnings

Earning money – either at home or at an outside job – lets children add to their allowances and at the same time develop a good attitude toward work.

For extra money, offer children the chance to do extra work around the house (besides their regular chores). Think of jobs that you might hire outside help for – such as weeding the garden, cleaning the garage, shoveling snow, cleaning leaves from the roof, babysitting, mowing the lawn, etc. – and instead, hire your children.



The job should be something the child can really do. Don't give children jobs that are too hard for them. Agree on the amount of payment before the work begins. If your child is capable of doing the job and wants to do it, pay what you would for outside help – provided that the work gets done reasonably well. Overpayment only gives the child a false idea of

what it takes to earn money.

As children get older, they may want to look for work outside the home. Before children accept a job, be sure they understand the responsibility it carries. Be sure they have enough time for fun, sleep, study, school activities and family responsibilities. Youngsters' school work may suffer if they work too many hours. Fourteen to 20 hours per week of outside work is the maximum that most teens can handle.

Earnings mean taxes. Teenagers with outside jobs need to understand how income tax works – why taxes are assessed, what they are used for, what withholding means and so on.

A job can help your child understand money in terms of time, skill and effort. Perhaps your child never thought about the relationship of a hamburger to an hour's worth of babysitting or grass cutting.



expenses does it cover? Does the child have a little left over "just for fun?" Is the child old enough to be given more responsibility?

- \$ Offer your children opportunities to earn money at home or away from home. Make a list of possible jobs and talk about advantages and disadvantages of each.

Things To Do

Parents

- \$ Keep a record of "handouts" for a week or so for each child.
- \$ Evaluate where the money is going. Talk with each child separately and at a family meeting. Consider using the allowance approach described in this lesson.
- \$ Discuss the allowance with your child before beginning it. Use the form below as a guide for the discussion.
- \$ If your child already gets an allowance, think about whether it needs any adjustments. What

Preschoolers

- \$ Let the child pay for small items in the store when you shop to get an idea of how much money it takes to buy different kinds of things.
- \$ If older children in the family get an allowance, the preschooler at 3 or 4 may be mature enough to begin receiving a small amount of money regularly.
- \$ Even toddlers can have regular chores, such as putting toys away.
- \$ Let preschoolers help with chores they are too young to do on their own – this is how they

Setting Up an Allowance (You may want to write this as a contract. Both parent and child can sign it.)

The amount: \$ _____ The day it will be paid: _____

The expenses it will cover:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

The amount to use as I choose: \$ _____

The date to discuss how I've used my allowance: _____

Jobs at Home	Jobs Away From Home
_____	_____
_____	_____
_____	_____
Decide on an "at home job" and sign a contract with the child.	
I will _____ For _____	
(job) (dollar amount)	
On _____ or by _____	
(day) (day)	
_____	_____
Child's Name	Parent's Name

- \$ Encourage savings (more about this in Lesson 3) and long-range planning.
- \$ If the teen hasn't already, open a savings account and get an ATM card.
- \$ Help teenagers evaluate outside jobs. Be sure your teen understands any costs of working away from home, such as bus fare, special clothing and lunches. Help the teen make a list of expenses and decide together if the job is worthwhile or not.

- \$ Explain the difference between gross and net pay. Teens need to know what deductions will be withheld from their pay so they can estimate how much money they will take home.
- \$ Help teenagers understand how to include taxes in their planning. Go through federal income tax forms with them. Most teens can file the 1040EZ form and will get most, if not all, of their paid federal income tax refunded to them, but they must file the form to get a refund.

\$ Help teenagers research where and how federal income tax dollars are used at:
http://www.irs.gov/app/understandingTaxes/jsp/s_student_home.jsp

Coming in the next lesson, we will explore the concepts of saving and sharing money

Six- to 12-Year-Olds

- \$ Provide an allowance based on the child's expenses and ability to handle money. Younger children may need to receive their allowance two or three times a week; an older child could manage a weekly allowance.
- \$ Help the child plan how to use the money. (Lesson 4 will explain in detail how to make a spending plan.)
- \$ Assign regular chores to each child. Make sure children know how to do each job. Praise them for a job well done.
- \$ Give children chances to earn money, at home or outside the home. Older children in this age group might help friends, neighbors or relatives do chores like feed or walk pets, pull

weeds, rake leaves, shovel snow, or run the vacuum.



Teenagers

- \$ Give teenagers a monthly allowance. Encourage them to plan their spending and keep records of what they spend. (Directions for spending plans will be given in Lesson 4.) Talk about the plans at family meetings or one-on-one and help them decide on any changes needed.

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