

Why Giving Your Child an Allowance is a Good Thing by Karyn Hodgens, co-founder of Kidnexions

Giving your child an allowance is probably the most effective tool you can find to teach your children healthy money management skills. 'Effective' because when it's their money, kids become a little more discerning about what happens to it.

And in order to learn money management, your kids should probably have some money to manage. Most childhood development experts agree that teaching kids money management skills can begin as young as 4- or 5-years old. Since most 4- or 5-year olds do not have jobs, they're going to need some seed money to get started. An allowance is the perfect tool.

Once your child starts receiving an allowance, consider it their "salary". That means it's going to need to be paid on time and consistently. You probably wouldn't feel so great if your employer was flaky on getting you your paycheck. After all, you make a lot of financial decisions based on knowing when your paycheck is coming in. The same should be true for your child. If she is working towards a purchase, then she needs to be able to rely on consistent paydays. And even if she doesn't have a personal financial goal in mind, it's important to show her you value her money enough to make sure she gets it on time. A great way to handle this is through KidsSave, a software savings and money management program. With this program, parents can set up accounts for their children which includes allowance. You choose how much and how often and the program makes sure it ends up in your child's account on the given day.

Now that your child has money, he needs the skills to learn how to save some of it and, yes, spend some of it. One of the first things he needs to understand is the value of saving his money. But 'value' can be a very abstract word, especially if you're six. One way to do this is to crunch some numbers in the calculator to show how much money he can save over time by not spending it. But that's not exactly exciting to a six year old.

Another better way to illustrate this is through the KidsSave program. It's much more visual, and kids are, by nature, very visual. There's a section in the program called the *What-If* where kids get to experiment with interest, allowance, matching funds, deposits and withdrawals and see the effect it has on their money. The key is THEIR money. When it's your money, it's not as interesting. What they see, quite visually, is the power of saving THEIR money and how it can grow over time. The graph generated can go out as far as 10 years and, if you include earning interest, is quite impressive!

Real young kids may not yet understand the *What-If* graphs but this doesn't mean that they shouldn't also save some of their money. Getting them in the habit of always putting some of it aside, be it for a charity, for something they're saving up for, or simply to save it, will follow them as they get older. You decide how much they need to save and every time they receive money they automatically know that part of it is off limits. The KidsSave program can help with this, as well, with the *savings lock* option.

Now that kids have saved some of their money, they need to learn how to wisely spend some

of it. The 'wisely' part may take some time because it's important to let kids make their own money mistakes. It may kill you to watch them spend their money on an item that you know is a poor choice but better they make a mistake on a \$20 toy that breaks after several days than on larger ticket items later on.

Use the *Goal setting* feature of KidsSave to help your child create a personal financial goal. Having kids save up for an item teaches them to live within their means. It also has an added benefit in teaching delayed gratification. And, oh what a treat to finally get the thing you've been saving for! What's more, now that they know they can achieve a goal, they're more likely to do it again.

Teaching kids how to manage money is an important life skill. Giving your child an allowance can help teach this skill. Consider it an investment in your child's future and what better gift than to make sure your child is equipped with the skills necessary to be responsible, independent, and financially savvy adults! And that's a good thing!