

POCKET MONEY

HOW TO USE POCKET MONEY TO PROMOTE
GOOD MONEY HABITS AND DEVELOP GREATER
INDEPENDENCE AND CONFIDENCE IN YOUR KIDS.



INTRODUCTION

The use of pocket money and allowances by parents is a touchstone for parenting in general. How you allocate pocket money indicates a great deal about your parenting style, and what you see as important for your kids.

The results of a 2013 Commonwealth Bank survey of 1000 Australian parents and their children aged from four to 15 produced some fascinating results. Over 80% of parents give their kids pocket money, but one third of kids rarely or never use savings accounts.

The bank's survey also found that kids develop the majority of their **money attitudes from their mum and dad**, and almost 80% of parents believe that they could do a **better job of teaching their kids about money**.

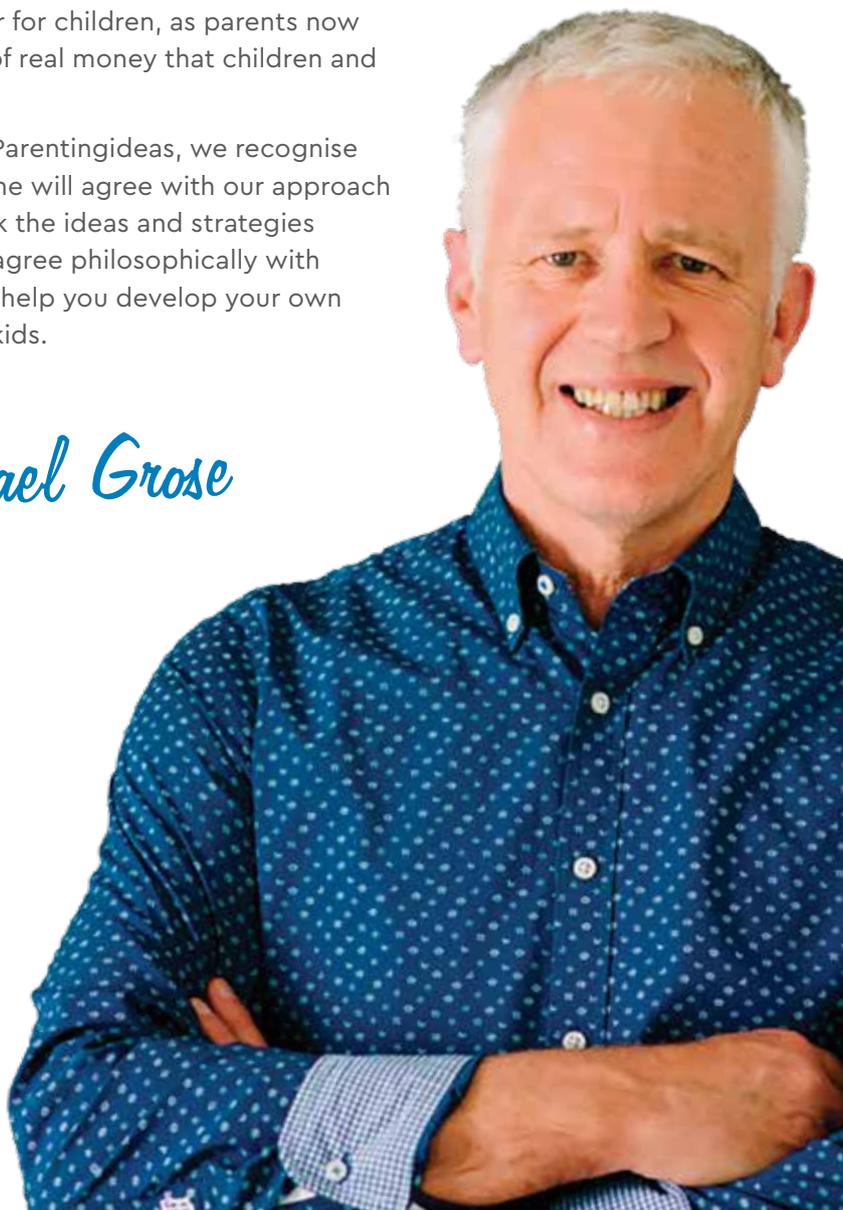
The use of pocket money teaches kids a great deal about saving, budgeting and making wise choices. It's an excellent way to develop real independence in kids; to develop real life skills such as goal setting and budgeting; and to promote success characteristics such as impulse control and personal responsibility.

Pocket money has become more important than ever for children, as parents now use less cash in their daily lives. It's through the use of real money that children and young people will learn how to use money wisely.

It is in this spirit that this guide has been written. At Parentingideas, we recognise that there are 'many ways to be right', so not everyone will agree with our approach to allocating pocket money. Wise parents cherry pick the ideas and strategies that work best for them. Regardless of whether you agree philosophically with our approach, there'll be enough great ideas here to help you develop your own approach to developing good money habits in your kids.

Let's get started!

Michael Grose



1 START EARLY

"What age should kids start receiving pocket money?" is one of the most common questions I hear.

The phrase 'You're never too young' should be ringing in your ears.

Before you start picturing a breastfeeding baby clutching a moneybox to its chest I do need to qualify this somewhat. The Commonwealth Bank survey found the average age for parents beginning to pay children pocket money is just a little over six. Parentingideas recommends that parents start giving children from the age of four a few coins that are related to items they normally ask you to buy such as treats or rides. As these kids are moving into the 'concrete operational' stage of development, and becoming consumers to boot, they are at a stage where they are able to make simple choices around purchasing.



AS A GENERAL RULE

Start giving children a regular allowance by the time they start primary school. Relate this allowance to concrete items such as treats and make sure you provide them with coins, not notes.

2 KEEP YOUR EYE ON THE ENDGAME

If one of the aims of pocket money is to promote greater independence in children and young people, then part of that process involves **weaning children off their parents** as providers of their regular stash of cash. Encourage kids to supplement their pocket money with a regular part-time job when they reach an age where they can legally enter the paid workforce. Part-time work has benefits for young people beyond teaching them to value money, including teaching them general work skills and helping to develop good attitudes toward customer service. **Having to fit into the rules of an employer** is beneficial at a time when many don't wish to follow house or school rules, nor listen to the wisdom of their parents.



AS A GENERAL RULE

Consider reducing the amount of pocket money available to teenagers when they reach the age that they can legally get part-time work. This may be sufficient incentive for reluctant young people to look for a job.

3 PROVIDE POCKET MONEY WITH NO STRINGS ATTACHED

"Should kids receive pocket money in exchange for chores?" and "Should they lose pocket money if they are poorly behaved?" are two common questions I am asked.

Parentingideas believes that kids should receive pocket money as their share of the family pie – **with no strings attached**. We feel very strongly that children should regularly help out at home whether or not they receive pocket money. In other words, there should not be a link between chores and allowances. Linking help around the house to pocket money teaches children to think "what's in it for me?" rather than "how can I help my family out?" There are plenty of other methods you can use to encourage your children's cooperation at home. (My book **One Step Ahead** gives lots of ideas to enlist kids' help without being paid.)

Similarly, when you give children money for good behaviour you are developing a self-centred view of the world, while withholding it for poor behaviour is fraught with danger and usually results in bad will between parents and children. Again, there are plenty of other methods you can use to reward and encourage kids to behave well. (Our Bring out your Child's Best Behaviour at Home parenting program, available in our online shop, has plenty of ideas to promote good behaviour.)



AS A GENERAL RULE

Give kids pocket money as a share of the family pie without linking it to help or behaviour.

"It is important to contribute to the family and household without being paid but it is also important that kids learn about how to manage money ..." Lisa Carbone



4 EARNING EXTRA POCKET MONEY

Some families have a **dual payment system**. That is, children receive a regular allowance each week or fortnight with no strings attached, then they receive extra allowances for doing, say, bigger or more unpleasant jobs. There is merit in this approach although from observation it can get quite tricky at times. It's perhaps best to keep extra pocket money for those times when kids really need to save, such as saving up for spending money on a school camp, or a large items such as a surfboard or bike.



AS A GENERAL RULE

Give kids the chance to supplement their regular allowance by doing extra jobs around the house, but save it for well-stated goals.

"If my children go out of their way to vacuum or clean toilets or a shower then they may get \$5"

Peta Merenda



5 GIVE JUST ENOUGH

It's the **regularity** of the allowance rather than the amount of money given that is the key to developing good money habits in kids.

We believe that the amount you provide needs to be determined by a number of factors including your child's age, the range of expenditure you want it to cover (see below) and the amount you can afford.

The Commonwealth Bank 2013 survey found that the most common amount children receive is \$10 a week, though this does vary by age group. Those aged 7 to 9 receive about \$7, while those aged 13 to 15 get more than \$14

Table 1 shows the average amount children and young people received according to the survey. You may use this as a guide, however we believe it's best to set your own pocket money amounts in line with your expectations of what it should cover.



AS A GENERAL RULE

Give less rather than more than kids seem to need.

HOW MUCH POCKET MONEY KIDS GET

AGE	4 - 6	7 - 9	10 - 12	13 - 15
CHILDREN RECEIVING POCKET MONEY	55%	77%	84%	82%
AVERAGE PER WEEK	\$717	\$704	\$1411	\$1411

As reported in Herald Sun, Monday February 4, 2013

6 RAISING CHILDREN'S ALLOWANCES

Consider linking pocket money to your child's age and then **incrementally increase** the amount each birthday. For instance, a 6 year old might get \$6 per fortnight, which is increased by \$1 every year. At the age of 10 they would therefore receive \$10 per fortnight, or you might review things at this age and give them \$10 per week as they move to adolescence. This method also helps you get around sibling envy that can occur when money is given to older kids.



AS A RULE OF THUMB

Raise pocket money in line with your children's age and needs.

"My four boys get 50c per year of age." Lucy Cook



7 GIVE POCKET MONEY REGULARLY

Like adults in the workplace, children appreciate having a **pay day** each week or fortnight when they receive their share of the family wealth. Consider providing your kids with their allowances at a time when they are conducive to sharing your ideas. My children received their pocket money at the conclusion of our family meetings (You can find out more about running family meetings in my book *One Step Ahead* in the online shop.) This not only helped me to remember to pay them, but it gave their mother and I the chance to help them allocate their pocket money into different areas (see below).

The notion of regular allowance adds the predictability element needed to help kids to take responsibility for their spending. If you give them pocket money on a whim, then it becomes very difficult for them to plan ahead and moderate their spending. Such a lack of predictability breeds dependence.



AS A GENERAL RULE

Give children pocket money at a regular time each week or fortnight, ideally at a time when they are more likely to listen to your efforts to influence them.



8 PROVIDE GUIDELINES

Provide kids with some broad **guidelines** about the types of areas that their allowance has been calculated to cover (remembering that the amount should roughly be in line with these expectations). This will vary according to each child's age and their willingness and propensity to make their own choices around spending. For instance, a lower primary school-aged child's pocket money might go towards the purchase of some sweets and one or two other items. A child in upper primary school, receiving more money, might be expected to cover the cost of his or her school lunch orders, their bus money and some treats. With adolescents, who generally appreciate having more power over their own lives, might be agreed that they will use their allowance to cover clothing, mobile phone bills, travel and school meals.



AS A RULE OF THUMB

Work out what you expect children to spend their pocket money on and provide them guidelines (and sufficient funds) to match, allowing something extra that they have full control over for things like saving, donating and investing.

My son's pocket money is his to spend on what ever he likes. He earns it! He actually ends up making good choices."
Conny Reardon-Tustin



9 DIVIDE ALLOWANCES THREE OR FOUR WAYS



SPENDING



DONATING



SAVING



INVESTING

We strongly endorse the concept of providing children with **3 or 4 jars** or containers in which to keep their pocket money. Alternatively, you could provide a moneybox with the right number of slots. This method helps children understand the difference between saving and spending, as well as encouraging good budgetary habits from an early age.



HERE'S HOW IT WORKS

Let's say you've given your child three jars from the start.

One jar is for spending money, one for saving and one for charity. They might use a fourth jar for investing, which encourages kids to put money away for their future. This will probably require some explanation from you and a readiness to understand this concept.

Ask the child to distribute their pocket money between the jars. Giving money in the form of coins makes this easier. Encourage them to set aside money for saving (and investing) and charity first. Discourage children from retrieving money from their savings (or investment) accounts, or from money set aside for donations, if they find that they spend more than they planned in a week. This is a poor money habit to develop. Instead, encourage kids to re-look at how they allocate their finances when they receive their next allowance.



AS A GENERAL RULE

Encourage children to allocate their allowances three or four ways (saving /investing, charity and spending) and discourage them from reversing or revisiting a decision once it's made.

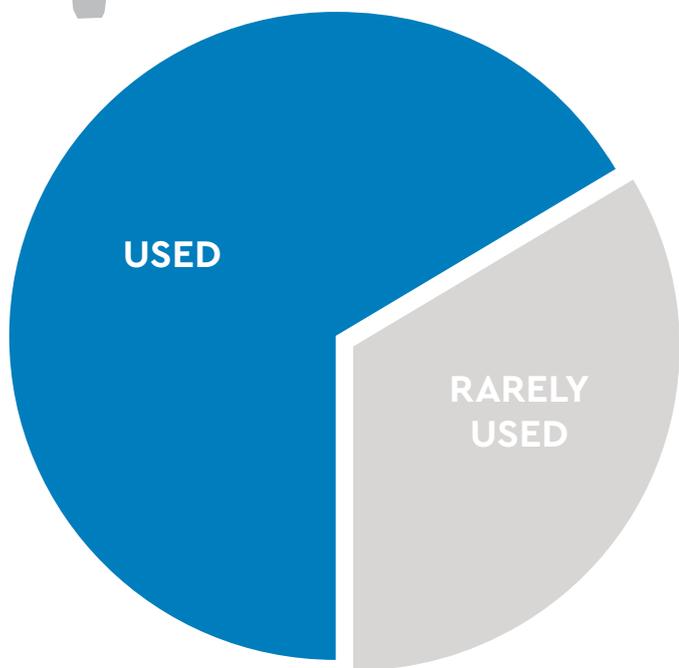


10 HELP CHILDREN USE THEIR OWN BANK ACCOUNT



CHILDREN'S BANK ACCOUNTS

Research shows that while many children have a bank account, around one third of them rarely use it. Teaching children that there are important benefits to **saving** – not just gaining it and spending it – is an important step toward teaching them to value money. An actively used bank account is an important step in this process.



AS A GENERAL RULE

Encourage children to use their bank account on a regular basis.



Help kids to budget for the week or fortnight ahead. The 3 or 4 jars concept helps this. Encourage kids to think ahead and identify the sorts of items that they want to buy. Discourage discretionary or impulse spending. At the same time, it's our view that you need to allow children to make their own decisions about spending as long as they are safe, legal and fall within broad health guidelines.

Some very organised children may want to keep a record of their expenditure so they can see where their money went. A bank account will help in this budgetary and money-tracking process.



AS A RULE OF THUMB

Budgeting should start at a young age and extend through the teenage years.

My kids get \$5 a week (6 & 8 year olds). Out of that they have to bank \$1, and donate \$1 Much like our wages. The remaining \$3 is left for them to save." Annette Kakris



12 ENCOURAGE CHILDREN AND YOUNG PEOPLE TO SET SAVING GOALS

There are a great many products that children and young people want these days. Bikes, skateboards and sporting gear compete with iPods, iPads and mobile phones on many modern kids' wish lists. Obviously, some of these 'big ticket' items make great gifts on special occasions, but let's face it: many wish lists outweigh the allocation for these events.

Teach children how to save for BIG expenditure items by **setting savings goals** and putting a little aside from each pay. Create a goal-setting chart so that they can visually see their progress. Alternatively, suggest that your child contributes a percentage of the price, or set aside some pocket money to save up for the item. Either way at least part of the responsibility for the purchase is transferred to your child. Once they have a stake in the purchase they are more likely to choose wisely, and to care for what they buy.



AS A GENERAL RULE

Help children set one savings goal at a time and encourage them to put money aside each pay just for that item.



USE POCKET MONEY TO DEFEAT PESTER POWER

"Mum, can you buy me a treat?"

This type of pester power is alive and well and living in many modern homes. If you get sick of your children asking you for treats, or the latest fad or gadget, there is a simple solution!

When kids pester you to Buy! Buy! Buy! suggest that **they purchase** an item themselves, or at least make a contribution from their savings. If you are pestered at the supermarket to buy an ice cream say something like, "Certainly you can have an ice cream. But it will come out of your our own money. If you haven't any money with you I'll buy it and you can pay me back when we get home."



AS A GENERAL RULE

Avoid buying children items that fit into their general guidelines for spending. That doesn't mean that you don't buy them treats from time to time, which is one of the delights of being a parent!



14 INFLUENCE RATHER THAN INTERFERE

Children and young people will invariably make plenty of mistakes with their use of money. Spending an allocation of pocket money on the first day of the week, leaving little left for the next six days; buying a toy that's never used; lending money to a sibling or friend that's not repaid – these are just some of the money lessons children may learn. The temptation is to rescue our kids by topping up their allowances or in other ways when unfortunate circumstances occur. However, covering for kids' mistakes robs them of valuable learning opportunities. A natural consequence is a valuable teacher, particularly concerning money.



AS A GENERAL RULE

Discuss with children the likely consequences of their choices, but avoid rescuing them from poor money decisions.

"My son uses money from Xmas and Birthdays to buy anything he wants and as an occasional treat he gets a lunch order or money for the canteen." Carolyn Beaumont



15 STARTING OUT

If you have never given your child pocket money and would like to start, here are some simple guidelines:

- a) Think about the items you'd like their pocket money to cover, and use this as a starting point.
- b) Choose a regular day each week or fortnight for payment.
- c) Help children allocate their allowance three or four ways – saving, charity, spending and investing, if suitable.
- d) Set up a savings account and make it easy for them to use.

