



Perfectcents

A family's guide to teaching children to be money smart

Number 7

Let's talk allowances

The idea behind allowances is to give kids and teens money of their own so that they can learn to manage it. The idea is great, but putting it into play is sometimes frustrating on both sides.

The parent side

Parents want to guide their kids' spending, so the kids don't make foolish mistakes. Yet the whole reason for an allowance is to let kids make mistakes and learn from them. Making mistakes while living at home is much safer than at college, where mistakes in spending and with credit cards carry big consequences. So parents, if they are playing by the rules, have to zip their lips, and let their kids learn the hard way during those early years.

And to make the whole allowance strategy work, parents must hold their ground when their child spends too much and runs short. The very worst thing a parent can do is bail a kid out of his or her financial trouble. Don't cave. If you rescue your child, he or she doesn't have to deal with the impact of the mistake. It loses its punch and its lasting effect. (Bailing kids out is like giving them an easy "undo" button. Unfortunately, real life doesn't provide "undo" buttons.)

The kid side

Kids want the freedom to use their money. They'll tell you, *What's the good of an allowance if I don't get to choose what do with it?* Besides, Mom and Dad don't understand about being a kid. The teenage wish list is endless – each week another really cool thing pops up. While Mom and Dad think this stuff is unnecessary, a teen can list all of the advantages of these purchases to any adult who will listen.

So typically teens have a problem. There's never enough money to do everything kids are supposed to do with an allowance. Some families insist that a part of the allowance should be saved or donated. *It's not enough*, teens will say.

Both sides

For allowances to work, both sides have to keep to their side of the playing field. The terms of the allowance are clear. Parents can't criticize their kid's spending. Kids can't ask for help when they get in trouble. But the beauty of this system is that the two sides no longer argue over purchases: their cost, their necessity, or their value. Each side stays on its side of the line.



Warning to parents

Many parents tie allowances to doing chores to give kids a work-world experience. But what happens when the chores don't get done? What if this happens repeatedly? If parents withhold the allowance, they also remove the opportunity for the child to learn to manage money. Consider imposing a different consequence for not doing chores – no movie, no telephone – to make your point.



Learn more about handling money at themint.org

Kids learn to negotiate

Here's a possibly unexpected benefit of allowances. When kids get older, they may "petition" their local allowance-giver to increase their weekly pay.

Petitions should be allowed, but the responsibility for building a persuasive case falls squarely on the child's shoulders. If

the allowance is tied to chores, what tasks will be added to the chore list to prompt the increase?

If the allowance is not tied to chores, why does the teen need more money? Simply saying that he or she cannot live within the bounds of the allowance won't cut it unless expenses are really growing.

If so, why? Are they reasonable expenses? Will the teen now take on more or total responsibility for them? If the case doesn't persuade, parents have every right to deny the request. It will be a great opportunity for kids to build a real-world skill. They may have to negotiate a salary with an employer someday.



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What's value?

Whenever anybody spends money – whether it's an allowance or a paycheck – they want to know they're getting their money's worth. In other words, are they getting *value* in return for their money? What exactly does that mean?

It means that you should understand what you're paying for. If you're going to pay more than the item's worth, you should know why.

For example, you can buy a 5-pound bag of potatoes in the grocery store for \$2.50. Why, then, would you spend \$2.09 on a few ounces of fries at a fast-food restaurant? *Because they taste great!* you say. That's one reason, but you could also put some frozen fries in the oven at home. They'd crisp up in about 20 minutes, and you have fries enough for a family of four for about \$2.00. So what gives those fast food fries value? Try another answer.

Okay. I've just finished sports practice. I've got to hustle to my music lesson. I'm starving after practice, I don't have time to go home and grab a sandwich, and I didn't pack one this morning, so I've got nothing to eat. If I don't get some food soon, I'll never be able to concentrate during my lesson. How's that?

Closer. You're saying that you're really paying for more than a box of skinny spuds. You're paying for convenience. The right food (something you like) in the right place (on your way to your lesson) when you need it (you're starving.) What good will 5 pounds of raw potatoes do you at this moment?

But if you had rolled out of bed right away this morning, you would have had time to make a sandwich and throw in a drink, an apple, and a couple of granola bars.



So what you're really paying for is your disorganization! You're hungry – buying fries is your best way to solve your problem. This story would not be a good one to use when negotiating the need for a larger allowance.

But this is only one example of what people buy and why they buy it. There are many ways to judge value – you can find another at themint.org. Go to *Spending*, and click on *What's It Worth?* It will give you a totally different view.

Then there's donating

For many families, giving is as important as earning. If that's your philosophy, then kids should learn early that a certain part of their allowance goes to help others.

How much to give? It depends. Kids with generous allowances and not many expenses can afford to give more. Kids who must use most of their allowance to pay expenses may have to give less. Another option is to give time instead. Kids have lots of energy that organizations can use. Whether your child contributes money,

time, or both, requiring kids to involve themselves in the community gives them the satisfaction that comes with helping others. It will also teach them that sometimes they might have to delay their own desires to help someone else with a more serious need.

Giving can be a family decision: the family chooses from several causes, listing pros and cons. Then everyone gives to the chosen organization.

Or, you can make giving more individual. Find out what is important to your tween

or teen. Then help your child find an organization that furthers this cause. Be sure that the organization you choose is legitimate. givespot.com or guidestar.org might be places to start.

Sometimes causes can be quite personal. Kids who lose a grandparent to a disease may decide that their money should go toward finding a cure. Others may want to connect with kids their own age at holiday time through programs like "Toys for Tots." Still others may want to donate food at Thanksgiving.

Mission possible: value investigator

Your assignment is to go out into the shopping world and track down goods disguised as values. Some will be the genuine article. Others will not. Your job is to find out which is which. Your assignment portfolio contains 4 pairs of items. You must decide which item in each pair is the Real Deal.

Examine items from all angles. Look at the craftsmanship. Compare the features. Test the materials. Weigh all of this against their prices. Don't be fooled by clever disguises. Some of these items have been known to boast of fake value, using clever logos, cool colors, or celebrity recommendations.

Ignore all of these things. You're after the facts. Stick with them. We're not asking you to buy any of these items. So you don't have to debrief your sector's allowance-giving agent. However, this is an assignment that will help you grow in experience as a special agent. Draw your own conclusions and then keep them to yourself.

1) Cross Trainers	around \$55	around \$75
2) Tear-away Warm-up Pants	around \$30	around \$49
3) A Hooded Sweatshirt	around \$25	around \$45
4) Personal CD Player	around \$30	around \$59

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