Four Financial Concepts Kids Learn From Earning an Allowance

Have you ever looked at your child and thought, “If I had only known when I was younger what I know now”? Friendships, school related issues, work, work relationships, and life in general are topics which elicit these thoughts, but what about financial issues? If you had known more about handling money at a young age would it have benefitted you? Would you have done anything differently?

I think most of us say we would. No matter how well we have done, there is always something we wish we had done differently. The truth is money lessons are some of the hardest lessons to learn and many of us feel that financial capability comes too late in our lives. Studies suggest early practice with money may help children spend less and handle money better regardless of whether they are given their allowance or they earn it.

Children learn from experience and there seems be at least four important concepts kids learn from having some early experiences with financial independence.

1. Kids learn to wait. Instant gratification doesn’t happen when you earn $4 a week and have to clean your room to get it. There is a finite supply of money and sometimes that toy at the corner store just has to wait. Be careful: Don’t short circuit this learning by making a gift of the money or the toy. Let your child wait. It is excellent practice for real life.

2. Kids learn to prioritize wants. Throw-away toys get a second thought reducing impulsive purchases. Remember that toy you bought for your child that she just had to have? She played with it the first day and then somehow it lost its appeal, and now it is lost somewhere in the bottom of the closet under a pile of clothes. When kids have to spend their own money they become a surprisingly stingy. Suddenly, that toy just isn’t good enough to waste an allowance on.

3. Kids learn to look for the best value. Believe it or not, kids notice prices…especially when it involves spending their own money! More than once I have had to drive to a different store so my child could get an item at a lower price. I was shocked she even noticed.

4. Kids learn to save. It is amazing how much restraint a child can show when she really wants something. This concept is similar to waiting, but it is more purposeful. Having the ability to direct one’s behavior and efforts toward a particular goal is a tremendously valuable life skill that will serve your child well into adulthood.
One final note, before introducing your child to the concept of an allowance, take some time to think about the ground rules. How will your child earn money? What chores or activities are just expected and won't be compensated by an allowance? How often will your child receive the allowance and how much will she receive? What can and cannot be purchased with the allowance? Finally, will there be any savings or charitable gift requirements of the allowance?

After the ground rules have been laid, step back, give your child some room to make mistakes (being sure not to bail her out), and watch as your child learns to make good decisions with her money.

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For more information on this or other family and consumer sciences related topics, contact Shelly Barnes, Family and Consumer Sciences Extension agent for UT Extension in Wilson County. Barnes can be reached at sphill24@utk.edu or 615-444-9584.