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# Implementing an Allowance System

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# Disclaimers

- Not a licensed investment advisor
- Educational purposes only
- Not financial advice
- Not tax advice

**Q: When can you start teaching your kids about money?**

**A: When they stop eating it.**



# Q: How do kids learn about money?

A: By having their own *experiences*, making their own *decisions*, and making their own *mistakes*.

(freedom within limits,  
child-directed)



# Parents Teaching Financial Literacy

“Parental influence has been found to be **1.5 times greater than that of financial education** and **more than twice that of friends** (Shim and Serido, 2011).”

“Parental socialization has been found to be **significantly associated with responsible financial behavior** (Tang et al., 2015). For instance, parental teaching of financial skills in childhood was found to be associated with **lower levels of debt in adulthood** (Grinstein-Weiss et al., 2011), whereas the lack of communication about financial matters between parents and their children was found to be associated with increased debt over time (Norvilitis and MacLean, 2010).”

# Q: What is financial literacy?

“Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual’s personal, family, and global community goals.”

~ National Financial Educators Council

# Q: Why should we teach financial literacy?

- Because we're raising our kids to be successful adults and functioning members of society
- Because we're selfish- it could benefit *us* later in life.
  - As elders, perhaps incapable of managing our own money, we can rely on capable children
  - Knowing that our estate will pass on to children who are responsible with money

# The 5Ws and How

(planes of development)

- Who - a kid learns to recognize different forms of money (coins, bills, cards) and the different roles within a transaction (buyer/seller)
- What - a kid decides what to spend their money on (or not); where kids learn the difference between wants and needs. Often lasts well into adulthood
- When - a kid decides when to (not) use their money, learns time-dependent concepts (compound interest, ROI). Stage never ends.
- Where - a young adult decides where their money goes; bridging the concepts of spending, saving, and investing. Advanced concept of maximizing savings while minimizing costs.
- Why - a maturing investor creates personal goals and determines the purpose for their money.
- How - an adult decides how to produce income and how to sustain a comfortable lifestyle on that income

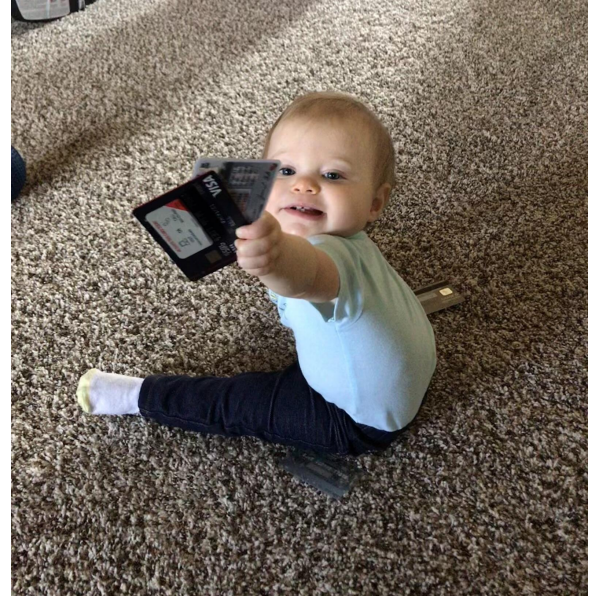


# Toddler Stage

- Sort and match coins
- Count coins
- Hand money to cashier
- Explore parents' wallets



One-year-old Samantha playing with plastic coins to a toy piggy bank



10-month-old Joanna playing with Mama's credit cards

# Pre-Schooler/School-Aged

- Allowance (amount is less important than the *conversations* and *experiences*)
- Save, Share, Spend jars
  - Learn basic budgeting skills
- Participating in transactions
  - Asking a store employee for help
    - (grace & courtesy)
  - Paying for their purchase with their cash
  - Assisting parents with transactions
  - Carrying their purchases out of the store



Five-year-old Joanna snuggling her new allowance purchase

# Save, Share, Spend Jars

- Learn basic budgeting skills
- Save jar - save for a bigger/more expensive toy (delayed gratification)
- Share jar - donate or spend on someone else (eg: church, Angel Tree) (community)
- Spend jar - theirs to spend on whatever they want
  - Not illegal or dangerous
  - Parents pay for needs, kids pay for wants
  - (freedom within limits)



## Making Change

Explaining I don't have enough \$1s, so we need to "make change"

# Allowance, Chores, and Jobs

## Allowance

- Controversial: not indicative of the “real world” but is a powerful learning tool.
- Enough to make choices, not enough to choose everything.
- Earned by “being a good member of the family/citizen/friend/student.”

Chores are responsibilities as part of the family.

- Not doing chores = loss of privileges (not loss of allowance).

Jobs are tasks the child can *choose* to do for money, but only after their chores are done.

- Paid wages by age (ex: dollar per age per hour of work)
- When legal working age, eye-opening/choice
  - (\$14 from parents or minimum wage at W-2 job)

# Age-Appropriate Job Ideas

- Washing/detailing the car
- Extra yard work
- Window/mirror washing
- Washing trash cans
- Annual or seasonal projects - rotating clothes, spring cleaning, reorganization projects, etc.
- Prepare for yard sale, Shop and Swap, etc.

# Allowance Lessons

- Counting dollars and the value of coins
- More/Less and Greater Than/Less Than
- Making change - substitutions and subtraction
- Making choices - buy cheaper toy now or save for a more expensive toy later
- Comparing prices
- Comparing/contrasting features
- Keeping track of money and receipts
- Needs vs Wants and Wants vs Wishes
- Keeping a ledger, reading a bank statement
- Taxes (community)
- Budgeting
  - Planning for future expenses (ice cream truck, holiday, school event, family vacation)
  - Start with weekly allowance, then monthly, quarterly, semester, annually





# Allowance Conversations

- How did that purchase make you feel? Happy, fulfilled, sad?
- How much enjoyment did you get from that purchase? (consumables vs durables)
- What things did you consider when choosing between two items?
- How will buying this item now affect your other spending goals?

Allow your child to develop their own “money personality.”

- Spendy vs Thrifty
- Quantity vs Quality

# Bank of Mom and Dad

- Savings jar for each child
- Offer 1 penny per dollar, per month (12% APY)
  - Learns about interest and compound interest
  - As child learns the math around percentages, can reduce to a more realistic amount, or better yet, open a real bank account
  - Provide trust, privacy, and autonomy
- Start with physical money - dollar bills and coins
  - Later, move to more abstract - savings account, checking account, debit card, credit card, brokerage account
  - An age-appropriate time might be when child gets their own smartphone
  - *When* child loses wallet, transition to digital currency
  - (concrete to abstract)



# Profit Sharing Benefits

Offer your child a choice between two products or services. If they choose the cheaper option, offer them half of the difference.

Ex: Buying a bicycle- \$100 at WalMart or \$20 at a thrift store. If they choose the thrift store bike, they get \$40 (\$100 new minus \$20 used = \$80, they keep half the difference)

- Teach them the benefits of buying used (cheaper, more environmentally friendly)
- Child learns skills of comparing prices and features and finding a good deal
- Teach them online safety and meeting strangers (Facebook marketplace)
- Teach them negotiating and interpersonal skills
- Saves the household money

# Profit Sharing Examples

- Clipping coupons (physical or digital)
- Taking photos of receipts (Ibotta, Frozen Rewards, etc)
- Buying used instead of new (thrift stores vs Amazon/Target)
- Buying generic vs name brand
- Arranging carpools instead of making separate trips

The opposite - child wants something more expensive than you're willing to pay

- Offer to buy basic product for \$y
- Child wants fancy product for \$y + \$z
- Parent pays \$y and child pays \$z

# Kid 401(k)

- Long-term fun goal for child (first car at age 16)
  - Give a general goal, and let your child be creative
- Teaches saving, investing, and compound interest
- Child contributions from allowance plus Parental (employer) matching



# Benefits of Kid 401(k)

- Child envisions themselves driving their own car someday
  - What do you want to drive?
  - Imagining the future and making a plan to achieve your goal
- **Delayed gratification**
- **Making choices**
  - Buy which car, quality, features?
  - Buy own car or split with siblings?
  - Buy a car or have Uber money?
- **Teaches responsibility**
  - Car maintenance and repairs
  - Driver's Ed
- **Teaches about additional expenses**
  - Registration, insurance, gas, repairs, etc

[Kid 401\(k\)  
spreadsheet](#)

# Conversations about Money

- Kids are curious
- Provide qualitative responses - “We have enough to...”
- As they get older, provide age-appropriate quantitative numbers
- Share your own estate plans and expectations
- Gifting while you’re around to see the results
  - Provide your child a solid financial foundation
  - Gifting within annual gift tax exclusion amounts (\$19,000 for 2025)
  - UTMAs/UGMAs and 529s

# Possible Progression of Money Management

- Weekly allowance
- Monthly allowance
- Plan own birthday party within budget
- Kid 401(k) ~\$5,000 at age 16
- Plan family vacation within budget
- In college, semester allowance (room & board, textbooks, meal plan, etc)
- After college, profit-sharing of 529 remaining balance
- Cash gifts to adult children

# References

National Financial Educators Council - [NFEC definition of financial literacy](#)

Zhao, H., & Zhang, L. (2020). Talking money at home: The value of family financial socialization. [The value of family financial socialization] The International Journal of Bank Marketing, 38(7), 1617-1634. DOI: <https://doi.org/10.1108/IJBM-04-2020-0174>