

Kids in the Marketplace Series ***Getting the money to spend***

Rodrico mowed Mr. Hubert's lawn last week, Erica babysat for the lady in apartment six, and Pete fed Ms. Helm's parakeet, two gerbils and watered her plants while she was on vacation. These three kids were paid for the services they offered to others. There are many ways kids get money, earning it is just one way. Money sources vary by age and maturity, family values, and family economic situation. Four major sources are parental dole, allowance, employment, and gifting. Contributions from each source varies with age. Teens often have the highest total income of all kids, a large portion of which is employment based. *Zillions* magazine reported kids age 9-10 received about \$5 (half received more and half received less) income weekly and ages 11-12 received \$10. Total income for 9 through 12 year olds was pretty evenly split between allowance and extra money. However, by age 13-14 the employment portion made up three quarters of their total \$20 a week income. In 2001, 9-14 year olds spent some \$260 billion.

Kids in low, middle, and upper incomes have money to spend. The marketplace offers lots of motivation to get money-money for now to buy things, money for later to buy things. As kids develop their own consumption patterns and make decisions about what to buy, they must also make decisions about how to get the money to buy the things they need and want. The two concepts - getting money and spending money are

strongly tied to each other. Parents can use this link to teach money management skills, consumer decision making, and to develop good work habits. Where does the money your child has come from? Does he think it is an unlimited supply? What do you want him/ her to learn about money and where it comes from?

The Dole

When your kids first shopped the grocery store with you, they probably asked for a special snack or toy. You probably pulled out your wallet and provided the money for the item.

Most kids get their first money either through "the dole" or as a gift from someone. Young children learn about money and how to use it through these handouts. It gives them practice in handling and exchanging money for a product. However, handing your kids money whenever they want it or whenever you think they ought to have it, doesn't teach financial management. The dole works when you are familiarizing your child with the marketplace or showing them you value giving to the Salvation Army at holiday time, but it doesn't teach self-control. Requests for parent handouts only get bigger as children get older and develop more "wants." What starts as a bottle of fruit juice and a stuffed dinosaur ends up brand name sneakers and an automobile. Self control on money management is best learned through experience and practice. Experience

requires a regular, steady source of income to practice on- an allowance and/ or employment.

Allowances

An allowance is usually a child's first source of steady, predictable income. It is a given amount on a regular schedule that allows a child to begin to plan how it is used. How old should a child be to receive an allowance? When your child understands the concept of exchanging money for things and that events have sequences, they are very close to being ready for their own money. Not all kids will reach this age at the same time. A child may be able to make a transaction in the market place, exchanging a dollar and receiving a product in return and yet not understand what an allowance is for. Six or seven is a reasonable age to think about giving a weekly allowance. This age has begun to think in sequential operations and can understand the connection between his receiving money and being able to choose to spend, to save, or to give away. A *Money Magazine* survey of parents found that 52% thought that kids should start receiving an allowance between five and seven. This does not mean they will value their allowance greatly or understand all the possibilities of use. Often six and seven and even older will seem to be careless about their money, losing it, giving it away without thought, or spending it on seemingly foolish things. They have not yet realized the value of money of the limited capacity of their allowance or an income. Experience has taught them that adults always have more, and all you do is ask for more. This is the true value of an allowance for a child. An allowance helps kids begin to realize that money is limited and choices must be made on how it is spent. Adults sabotage this understanding if they are always ready to "bail out" the child who

has spent his/ her allowance but sees something else he/ she "has to have."

When you give an allowance you want to set ground rules so your kids are clear on what the allowance is for. This is a parent decision and will change as your kids develop and mature. One rule might be related to where portions of the allowance go: part of the money must be set aside for giving to charity, church, community, etc.; part must be set aside for the future (saved); and part is available for spending in the marketplace. You may want to identify what your child can spend it on. As your child becomes older and makes more money, the "what it's spent for" could expand to gifts, clothes or gas for the car. If you feel strongly about some products in the marketplace like guns or environmentally destructive products, you may want to add the limitation that their allowance can't be spent on those products. This will work with younger children as you help them set the values you think are important. As children mature and learn to make their own decisions, there will come a time, when those limits must be lifted so your child can exercise his own responsible choice and be bound by the consequences of the choice. In fact, the *Money* survey found that 58% "resoundingly" agreed that children needed spending limits, another 16% said, "yes, limit" until the age of 12. Be selective of the amount of limitation you put on your child's allowance. The value of an allowance is for kids to learn to control money to achieve recognized wants and needs.

Should the allowance be tied to jobs at home? There are several philosophies on this. One says, "yes," children should be given a list of jobs at home and not be paid their allowance if these jobs are not done. At the opposite end, is the philosophy that the child should receive an allowance regardless of what he

does at home. A middle ground is that some jobs are required and tied to the allowance, others are optional. There are many variations. What you must think through is what the purpose of an allowance is. What are you trying to teach your child? If you are trying to teach your child that resources are limited, that they must set aside money for certain needs and desire and that they must learn to choose among many choices, either philosophy works as long as they are receiving an allowance. If you are teaching them the relationship between work and money – no work no money then the job should be tied to the allowance. If you want them to understand that as part of a family, they have a responsibility to contribute to the tasks of that family, regardless of monetary payment, then you do not want to tie the allowance to the task. They are separate issues. A middle ground is for there to be family tasks that all are required to participate in as family members, each member gets an allowance, but more money could be earned if they do additional jobs or tasks. For example, it may be a family job to set the table, clear, and do the dishes regularly, but mowing the lawn is an extra. Your child doesn't get paid for doing regular tasks, but could be paid beyond the allowance for mowing the lawn. This teaches both concepts, no-work-no pay, and responsibility as a team member regardless of dollars involved. It also gives your child his own money to begin to make allocation choices: to save, to give, and to spend.

Employment

Occasional and part-time work contributes a greater portion of kid's incomes as they become older. Eleven and twelve year olds are often making about half their incomes from extra jobs and special paid projects. By ages thirteen and fourteen, extra money earned beyond their allowance is three-

quarters of their total income. Earning money for work is a valuable concept that can help kids hone their own skills and talents, strengthen self esteem and image, and build positive work habits as well as provide additional income. First time projects should be selected to allow your child success in completion and consider his/ her developmental skill levels. A good reader could be paid for reading books to a younger child, freeing a parent to complete nearby tasks. Older children can paint rooms, mow lawns, rototil gardens, take up a paper route, wash windows, organize a garage sale, water the neighbor's plants while they are on vacation and feed pets, wash cars, water yards, and babysit. The ideas of work-for-pay are as possible as the imagination of the worker and a willing buyer of the service or product.

When you are your child's "employer," you can help your child succeed by being clear about the job details, negotiating with them what you will pay, any time limitations, and the quality you expect. Practice with you will help set the benchmark for when your child works for someone else. If the quality is not as you agreed on, or the full task is not complete, do not automatically pay the full amount. Talk with your child about completing the job the way you discussed. Being too tired to finish an agreed job is not an acceptable excuse. You are building the foundation of your child's work habits, which will affect not only their short-term earning ability, but also future employability and earnings. A paid job teaches them the relationships between the money they earn and the extent and quality of the job necessary. Quality standards can be raised as kids first develop the skill of doing, then fine-tune the detail. You may pay your daughter a base rate for mowing the lawn, this might include checking fluid levels and pushing the

mower with your supervision. As she learns to maneuver the mower, develops mowing skill, demonstrates safety skills, and less need of your supervision, you could increase payment for independent work, improved edging, neatness, changing the oil, etc.

Almost all first jobs-for-pay should be supervised. Kids need clear operating and safety instructions. If it's envelope stuffing, they will need your help in thinking through the production sequence, stacking, and grouping system. They also need you to cheer them on to completion. As your child grows older, he/ she develops the thinking and sequencing skills that tasks require and is better able to work independently. But remember; even independent workers need occasional supervision, guidance and direction, encouragement, and praise for well-done work. Employment should not just be a source of income but should also provide feelings of accomplishment and worth.

School age kids' available work time is after school, weekends, and summers. Parents must watch to be sure employment doesn't interfere with kids' real job- going to school. This usually means for most kids weekends and the summertime provide the best opportunity for building income. *Zillions* summer survey of 9-15 year olds found nearly seven out of ten had at least one job over the summer. The number one job was babysitting, then pet feeding and lawn mowing. Many did several different jobs, combining traditional babysitting, car washing, and housecleaning with garage sales, teaching Grandpa to use the computer, and repairing bicycles. One way to help your kids with ideas of what they could do for pay for others is to ask them to survey the neighborhood, friends, and

relatives for those jobs they don't like to do and what they would be willing to pay someone else to do.

Use the box below to help your child prepare for a job-for-pay:

INFORMATION TO KNOW BEFORE YOU START THE JOB

- ◆ What exactly does Mrs. Jones expect me to do? Do I need to write down what she's telling me so I can remember?
- ◆ What tools do I need? Do I have them? If not how can I get them?
- ◆ How much is Mrs. Jones offering to pay me? Does it seem to low? Should I ask her for more? This should be done BEFORE either of you agree to the project.
- ◆ If this job were done perfectly, what would it look like? What would make it a quality job?
- ◆ How much time do I think this job will take?
- ◆ When do I expect to start it and complete it?

By teenage years, kids have developed work skills and may have an automobile to allow them to get a "real" job. According to consumer Expenditure Survey (1997-1998), 36.7% of youth 15-17 are earning wages thru employment opportunities. According to the Rand Youth Poll in 1993, teens earned an average of \$31.30/week and received \$47.60 in allowance. Part of this is related to increased capability to work independently and a greater variety of skills. Adolescents aged 13-15 earned on average \$16.55/week and received an additional \$17.75/week in allowance.

Gifting

Birthday, holiday, and other occasional gifts of money, stocks and bonds, and

other investment papers provide additional income for kids. Gifting is often an irregular source of income. It is difficult to include money gifts when planning out expenditures. Investment instruments like stocks and bonds and certificates of deposits do offer opportunities to practice marketplace skills. When your child receives these future income generators as gifts, take the time to help him or her learn about how they work, and what options are available to keep them generating income. You both may need to read the fine print and details as well as taking some trips to the library. The person who gave the gift can be a great source of information. Take advantage of this chance to give kids valuable marketplace experiences.

Borrowing

We've talked about how kids can get money for meeting their financial needs and wants. Our previous discussion has focused on the acquiring of positive dollars that may be allocated according to a plan. Another source of dollars for marketplace spending is credit. Credit is the borrowing of money against future income to purchase an item right now. Informal borrowing often happens when a brother forgets to bring his wallet to the toy store and talks his sister into lending him money until they get home. A little of this is okay; too much indicates that the borrower is spending his money without planning for it. It starts a habit of impulse buying that is hard to control once credit-card age is reached.

Kids do need to understand the concept of borrowing. This concept includes not just the intention to pay back but the ability to pay back. A second part of this concept is that borrowing costs. You must pay a person for the use of their money. One way to reinforce this, is to charge an extra fee whenever your child wants to borrow money against his/ her

allowance. The flip side of this is to borrow from your child and let him charge you a fee. Let him see that he can make money from interest. Intra-family borrowing should be in small amounts that a child can easily repay. Teens may experience emergency situations that their allowance and/ or part-time job can't cover, maybe they had an accident with the family automobile, or they have to buy special work boots for their job. If a sizeable amount of money is borrowed from another family member, it should be done on a business-like basis. A principal, interest, and repayment schedule should be drawn up and signed. This will prepare them for marketplace borrowing and future credit decisions.

Endnotes

1. Lynn Asinof, "Kids and Money: Lessons on Dollars and Sense," *Wall Street Journal*, Nov. 19, 1993 pC1.
2. "The Readers' Poll: How to Teach Kids About Money," *Money*, October, 1993, p31.
3. "The Readers' Poll: How to Teach Kids About Money," *Money*, October, 1993, p31.
4. Lynn Asinof, op. Cit.
5. "Cashing in on Summer," *Zillions*, June/ July, 1994.
6. High School Financial Awareness Survey, College for Financial Planning, Extension Service U.S. D.A. 3rd annual year.
7. Carol B. Meeks, "An Analysis of Factors, Influencing Sources and Amounts of Adolescents' Income," *Proceedings of the American Council on Consumer Interests*, Vol. 39, 1993, p.124-129.
8. Chuck Taylor, "Preteens a Lucrative, If Vulnerable, Market," *Billboard*, 05/12/2001, Vol. 113. Issue 19, p5.

9. David Johnson and Mark Lino, "Teenagers: employment and contributions to family spending." Monthly Labor Review, Sept. 2000, Vol. 123, Issue 9, p15.

10. Sharon, Dortch, "Why Teens Have Less Green," American Demographics, July 94, Vol. 16, Issue 7, p9, 1p.

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