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How an allowance can help children develop financial know-how

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Robin Taub paid her two kids a weekly sum when they were younger in an effort to help teach them basic money skills.

Now, they're living away from home at university, managing a budget, and friends tease them for being money-smart kids, she says – a riff on the title of her book, "A Parent's Guide to Raising Money-Smart Kids."

Giving children an allowance can help instill positive money habits, financial experts say. At a time when Canadians are carrying record loads of debt, that can be invaluable.

"Kids do need the opportunity to manage the money starting at a young age, where they can make little mistakes when the stakes are low and learn from them," says Taub, a chartered accountant.

She recommends doling out one dollar a week for every year of the child's age.

One of the biggest debates for parents around allowances is whether to tie them to chores.

Taub believes chores should be done because kids are contributing household members, not because of financial incentive.

But that's not reflective of reality, says Teresa Cascioli, author of the children's book series, "M is for Money."

"I don't think in the real world people get money just for doing nothing," she says.

Instead, parents can award kids for doing work beyond regular chores, like washing a vehicle, making the allowance a fluctuating sum based on a child's willingness to earn it.

Both women say five years of age is a good point to start granting allowances.

When kids are young, it's important to give them cash as it helps them distinguish the value of bills and coins, Taub says. Once they're older, parents can introduce kids to debit cards and online banking by opening up a children's bank account, which most of the major banks provide, usually without a monthly fee.

But handing them cash or transferring money into their savings account doesn't mean it's a spending free-for-all.

Taub says she gave her kids guidelines on how much money they should put towards immediate spending, saving for a bigger purchase, donating or investing for the long-term. That allowed her to talk to her children about what toys, clothes or other wants topped their shopping lists, how much they cost and how long it would take to save for them.

As many kids are spendthrifts, they may try to negotiate an advance in lieu of waiting to accumulate enough funds for that purchase.

Cascioli says parents should resist and hold firm to the payment schedule to avoid reinforcing bad habits that could create troubles later in life when the lender is a bank and potentially less forgiving than family.

Lending a child money can, however, present a good lesson on credit and interest, Taub says.

For parents who can't spare any income towards an allowance, Taub stresses it's the conversations and teachable moments that come from permitting a child to manage money that are important. She suggests allowing a kid to help take charge of some of the family's spending, such as on groceries, to create those opportunities.

Of course, not every family is comfortable discussing money.

It's OK to tell kids it's a confidential matter, not to be discussed in the school yard where children may compare allowances, says Taub.

Parents also don't need to go into minute detail, she says, but rather can speak generally when teaching kids about costs like mortgages.

The most important part is finding age-appropriate lessons about money in daily life, she says.

"Sometimes you just have to get out of your comfort zone," she says.

"It's no different than talking to your kids about sex. Having the sex talk is a little awkward and it's not something you do once."