

Financial Management in Children: Today Need, Tomorrow Necessity

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Abstract

Nearly 80% of young people today will never be able to retire. Why? Because they lack the personal finance training that leads to long-term planning and future security. Connecting the dots between kids and money management skills prepares them for the financial realities the world will face over the next century. Pocket money is one of the first ways for children to learn the basics of managing money – a skill they'll definitely need for life – and it makes children feel independent. Whether to give pocket money, and at what age, and how much to give are issues that often concern parents. There are many ways to handle this. To a large extent it depends on family values, practices and finances. The main reason for giving children pocket money is to help children learn to be able to manage money while they are still young and parents can guide them. It also may help children to feel that they are important members of the family, because they are given part of the family's spending money.

Key Words: Children, Financial, Management, Pocket Money.

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Introduction

The subject of money can often be a contentious one as it is tied to emotions. Parents often find it difficult speaking to their children about money because they assume that their children will not understand the context in which the subject is raised. Because children do not earn money and are not self-sufficient, their parents often feel that the issue of money is something their children will learn as they become part of the work force. However, whether or not your child is financially literate will play out later in life, often dividing those who will be financially independent and those who may inevitably be forced to rely once again on their parents for financial support. The recent recession has raised many questions for adults about how they view money and how they handle it. It has also raised questions on how children can be taught from a young age to become more financially astute citizens. In fact, many schools in developed countries have now been forced to include financial management in their curriculum at the request of parents. In South Africa, there is lack of a saving culture, which has proved economically crippling for many adults who simply did not know any better (1).

Financial planners and advisers agree that in order to get a clear understanding of the value of money, children have to work with money. While it can't be prescribed as to whether or not to pay your children for chores done or give them a straight allowance, it is certain that having money regularly will allow your children to work with money and begin to have a value for it. Those who favour paying children for chores done believe that it will build a work ethic in children, teaching them the value of work in proportion to the wages earned. Others believe that children should do chores without having earnings attached them. This, they believe, will

teach children the importance of cultivating a culture of self-dependence and a work ethic not necessarily attached to money, while an allowance will help them to develop financial literacy and varying attitudes to money. If children want to earn extra money, it is plausible to ask them to do extra chores apart from their regular chores, for which they can be paid (2- 5).

Once children have money in their hands, it becomes important to show them how to spend it wisely. Normally, children are given a weekly allowance and with the guidance of their parents, taught how to budget the amount as an adult would. Smart parents know that there must come a time when they need to start teaching their children about the value of money. But when is that time? How much should you give? How do you get a balance between doing jobs around the house for money and just helping out? Pocket money is one of the first ways for children to learn the basics of managing money. Children learn their attitudes towards money from home and from watching you. Giving pocket money helps children feel independent and creates the opportunity to teach children about spending thoughtfully and saving. It helps teach children about making choices, saving up and waiting for things they want. All skills they'll definitely need for life. Your child is ready to learn about money when he or she understands that you need money to get things from shops (1, 4-6).

Materials and Methods

The current study is a review survey which was conducted to evaluate of children's financial management by studying WHO website, UNICEF website

and scientific texts about this subject. To evaluate the texts, the singular or combination forms of the following keywords were used: “Pocket money”, “Management”, “Children”, “Parents” “Financial” and “Handle”.

To evaluate the electronic databases the following websites were searched: Google, Ministry of Healthcare, Google Scholar, Scopus and PubMed. Also, library search was performed by referring to the journal archives of libraries, and evaluating the available Persian and English references, and also articles of research-scientific journals, and articles of the annual seminar of Pediatrics, Mental health of children and Family and child health.

Results

Pocket money basics

1. Generally, children learn their attitudes towards money from home.
2. Giving pocket money creates the opportunity to teach children about spending thoughtfully and saving – and even the consequences of misplacing money, losing it, betting or giving money away.
3. Regardless of the amount of money, giving pocket money to children as young as four or five years helps them to begin learning about money management.
4. Pocket money also helps teach children about having to make choices, saving up and waiting for things they want.
5. Letting your children make a few mistakes like spending all their hard-earned savings, originally earmarked for a hot-wheels car, on fake tattoos instead – is part of the learning process. But it’s OK to put limits on what they spend their money on. For example, you might discourage them from buying bubblegum or lollies if that interferes with their appetite for nutritious food or you want to protect their teeth from decay.

Learning about money

Your child learns a lot by watching you and how you deal with money. Spending, saving, withdrawing or donating money – they’re all chances to teach your child more about the basics of money management.

As children get older, you can teach them about:

- The value of money: the relative price of things;
- Spending: accepting that money is gone once it’s spent;
- Earning: understanding that earning money can be hard work, but usually that’s the only way to get it;
- Saving: using short-term and long-term goals;
- Borrowing: understanding the importance of repaying borrowed money.

How much pocket money?

This depends on your circumstances and what you think is a reasonable amount. As long as your child understands how much he will get (and how often), he can start learning how to use the money well.

Base your decision on:

- What your family budget will allow;
- What you expect pocket money to pay for – if you expect it to cover things like transport, lunches and savings, you might need to give a little more;
- How much pocket money your child’s friends get.

Tips on giving pocket money:

Here are some pocket money tips:

- Explain to your child what pocket money is for and what it’s not for.

- Pay what you can afford, regardless of what other parents (or your child!) might advise.
- Pay it on a set day.
- Set up a number of jars to help your child divide his money – for example, one jar for small things he wants now and one for saving towards bigger things.
- Put saved money in a dedicated container, such as a glass jar or a money box. Seeing the level grow helps highlight the achievement of being a good saver.
- Try not to give payment in advance.
- If pocket money is to cover entertainment, talk about what kinds of entertainment.
- Try not to supplement pocket money – it's all about teaching your child to live within her means (2, 3, 5-11).

There are two types of pocket money:

- **Earned:** The earned money is dependent on them doing their jobs. If they fail to do them, then they lose out on the allowance. Be specific about the jobs and behaviour that this 'contribution' expectation includes. E.g. Setting the table, picking up your own toys, using lovely manners, looking adult friends in the eye and saying hello). So, if they earn it they get it, if they don't earn it, they don't get it. You can not take the earned money away from them for other misbehaviour.
- **Unearned, just for being part of the family:** The unearned money, on the other hand, can be docked for any misdemeanor, since they are not 'contributing' to the family in a positive way.

An allowance that is or isn't tied to chores?

- Financial planners and advisers agree that in order to get a clear understanding of the value of money, children have to work with money. While it can't be prescribed as to whether or not to pay your children for chores done or give them a straight allowance, it is certain that having money regularly will allow your children to work with money and begin to have a value for it.
- Those who favour paying children for chores done believe that it will build a work ethic in children, teaching them the value of work in proportion to the wages earned.
- Others believe that children should do chores without having earnings attached them. This, they believe, will teach children the importance of cultivating a culture of self-dependence and a work ethic not necessarily attached to money, while an allowance will help them to develop financial literacy and varying attitudes to money. If children want to earn extra money, it is plausible to ask them to do extra chores apart from their regular chores, for which they can be paid (3, 12, 13).

How to make pocket money work

- Pocket money doesn't have to be given weekly. If you think you'll find it hard to keep track of who's had what, particularly if you have a bigger family, it might be better to give pocket money monthly, perhaps on the first Saturday of each new month.
- Decide what you consider a 'non essential' - what comes out of

pocket money and what doesn't - and be sure to make this clear to your child. Will pocket money cover holiday spending money, for example, or will they get extra for special events like days out at theme parks or similar?

- To make the experience of handling their own money as useful as possible, try not to interfere in your child's financial decisions. If they decide to save for something really worthwhile, all well and good, but if they fritter their money away on that week's new fad, try not to get too worked up. Sure, you can explain to them that their money's going to waste and that instant gratification is nothing like as satisfying as making a much more considered purchase but remember that you're trying to help them become self-reliant individuals and that they're bound to make a few mistakes on the road to independence. Or you could strike a balance by encouraging your child to put away a portion of their pocket money or allowance into a savings account, while the rest is theirs to spend as they choose.
- When your child reaches their savings target be sure to congratulate them on their achievement and help them to really appreciate the moment by making a special trip to the shops to purchase their much longed for item. Let them hand over the money so they can experience a real sense of achievement (1, 2, 6).

The positives of pocket money for kids

Many parents have different opinions when it comes to giving their children pocket change. For those of you who need

a little convincing and are still unsure about dish out cash, here are some reasons why giving your child pocket change is (can be) a good thing.

Benefits of pocket money

Allows children to feel independent

By giving children money you are allowing them, to some degree, to be independent. Children love any chance at playing "grown up." Beyond them feeling independent, you're teaching them how to manage their own finances! Many kids will appreciate the fact they have been given this privilege and trusted to handle an amount of money wisely.

Teaches them the value of money

How can we expect kids to truly understand the value of money if they've never had to purchase an item themselves? Giving them pocket change can help them learn how much certain things cost and the value of money. Giving them an early exposure to money will better prepare them for the real world and a life of independence! This will also help children understand that nothing is free.

Allow them to make financial mistakes before it really matters

Let your children make their own mistakes with money and they will hopefully learn a few valuable lessons about saving and spending before they reach adulthood and have to make some serious financial decisions. Teach them to put a small amount of their pocket money away each month so at the end of the year they can treat themselves to something they really want. However, don't monitor it and, at the end of the year, if they haven't saved a penny, they won't be able to treat themselves.

How to give children pocket money?

Make them earn their money

This is another bone of contention among parents, some of whom feel pocket money should be a given right and some who think children should have to work for it. Studies show that children who have earned their money from doing chores such as washing the family car or helping with the dishes, valued the money more and were more careful with it than children who were just handed it.

Ask friends and family how much they give

Sometimes it can be difficult to decide how much to give your kids each time. Do they need just a few dollars or is 20 dollars near the mark? Consider your child's age and what they will need to spend some of their money on. It may also be helpful to ask other moms and friends to see how much they give their kids -- this could be a benchmark for you and make the decision easier. Don't just ask one parent, they can provide an over inflated amount to their child, or far less than what will cover the expenses you expect your child to meet with their money.

Keep your side of the bargain and be consistent

Make sure you always give your child what they have earned, consistently and on time every week. If you are late with payment or forget to give it to them, especially after they have successfully completed all the chores that are required of them, they may become fed up and confused as to the point of it (1, 6, 14).

Your child might get the hang of managing money earlier than most if you take a little time to teach them these important lessons.

Ages: 4-7

When to introduce pocket money

Although research has shown that many parents introduce pocket money when their children are about six or seven years old, some parents don't feel comfortable giving pocket money at all and there are no hard and fast rules just as there are no "right" or "wrong" ways to teach kids about finance and money, just your way.

But if you notice some of these things then your child might be ready to try managing some pocket money:

- They understand that you need money to get things from shops.
- They understand that spending all their money today means there is no more until the next payment time.
- They need money to buy school lunches, catch the school bus or to buy a comic. In this case, pocket money can help your child to plan their daily spending so that their money lasts for the whole week.

Ages: 8-13 years

The value of money

As they get older you can teach them about:

- The value of money and the relative price of things.
- Spending and accepting that money is gone once it's spent
- Earning and understanding that earning money can be enjoyable as well as hard work, but usually that's the only way to get it
- Saving and teaching them about investing using short-term and long-term goals
- Borrowing and understanding the importance of repaying borrowed money.
- The differences between cash, cheques and credit cards

When using a credit card at a restaurant, take the opportunity to teach your children about how credit cards work. Explain to them how to verify the charges, how to calculate the tip, and how to guard against credit card fraud. Many children don't learn the value of money if all they see is you paying by card which may appear to be just like magic to them.

Ages: 14-18

Pocket money to allowance

Pocket money often changes into an allowance once your child turns into a teenager. This can also change to a monthly rather than a weekly system to help them learn about budgeting. So talk with your teen about changing from pocket money to an allowance as it moves the sense of responsibly up a notch or two and they will enjoy the independence and freedom.

This means:

Their money needs to be spread over the whole month. If they have a mobile phone, for instance, they need to make sure there is enough money to pay the cost of the calls at the end of the month.

- They can plan for large purchases and watch out for bargains and special offers.
- They can negotiate what their money is spent on.
- They are more responsible for what they buy as it is their own money.
- Talk with the adults who give you the money about changing from pocket money to an allowance, or to start a regular allowance.

It's also important to alert older children to the dangers of borrowing and paying interest. If you charge interest on small loans you make to them, they will learn quickly how expensive it is to rent someone else's money for a specified period of time.

Be cautious about making credit cards available to your teenager, even when they are entering college. Credit cards have a message: "spend!" Some students describe using their cards for cash advances and also to meet everyday needs, instead of just for emergencies (as originally planned). Many of those same students find themselves having to cut back on classes to fit in part-time jobs just to pay for their credit card purchases (1, 3, 14-17).

Conclusion

The main reason for giving pocket money is to help children learn to manage money while they are young and parents can still guide them. Pocket money can help children feel that they are important members of the family because they are given part of the family's spending money. It helps children to make choices. They learn that sometimes people have to wait and save up to get what they really want. It can be a problem if there is not much money to spare in the family.

Even a very small amount can give a child the feeling of some independence. In some families children are given what they ask for and do not get pocket money. If this works well for their family there is no need to give pocket money. However some parents feel their children haven't really learnt about money and how to manage it with this method. The age at which you start giving pocket money depends on your child and you. Check what their friends' parents are doing so they don't feel too different. Some parents put part of children's pocket money in a bank account for them. Some parents give pocket money and ask the child to bank some regularly.

The amount of pocket money needs to be linked to age, stage of development and their needs (not wants): A child in pre-school and lower primary school may get enough to buy some toys and a sticker

book. A child in upper primary school may get enough to cover lunch orders, bus money, presents for friends and something for themselves. Teenagers 'allowance' could cover clothing. Giving pocket money can teach children about goal-setting: By encouraging children to save for a big item (or even to make a contribution) children learn a great deal about planning, budgeting and they get to experience the satisfaction of reaching a goal.

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