

Pocket money is an excellent way for you to learn saving, planning your investments, budgeting, goal setting and overall financial discipline.



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As a teenager, you constantly face one problem — money management. In today's world of rising expenses, the majority of parents give pocket money or a monthly allowance to their teenaged kids. So how do you as a teenager make the best use of this allowance? How can you make sure that your needs are met and at the same time you do not run out of money?

The first thing you must remember when you think of pocket money is that this should not be considered as easy money for the purpose of spending. A lot of teenagers do not understand the importance of pocket money and only think of it as a means to get what they want. But keep in mind that pocket money is an excellent way for you to learn saving, planning your investments, budgeting, goal setting and overall financial discipline.

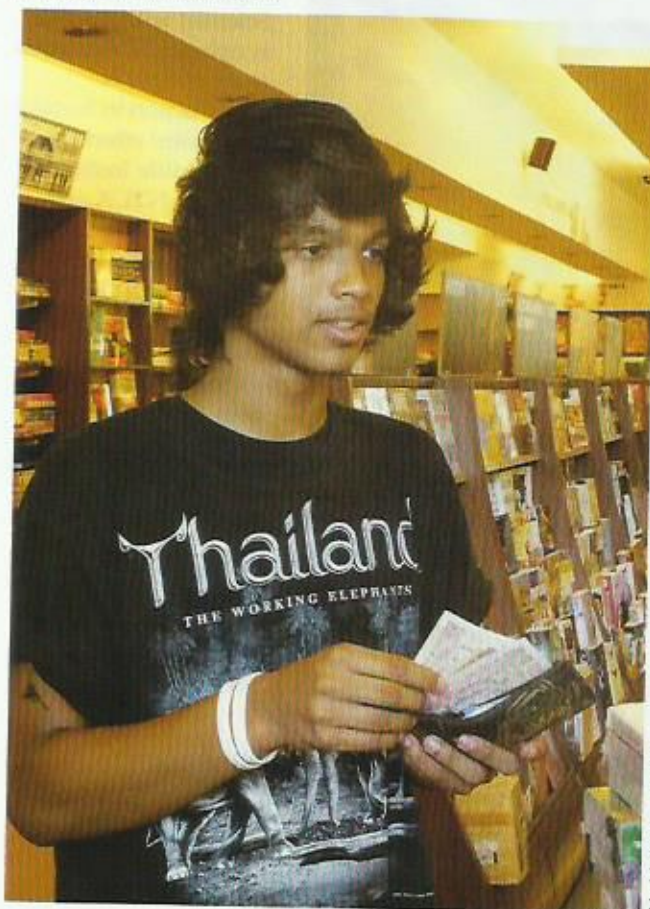
Pocket money can be of two types — free money and earned money. Free money is when you receive an allowance without you having to work for it, irrespective of what you do or don't do. The second type, earned money, is when you have to do a particular work or chore to earn an allowance. This is like you doing a job to earn money. The end result of both types of allowances is you having money in your hands; but you have to work hard to get the money in the second type. Remember that regardless of whether the pocket money you get is free or earned, money is money and you have to treat it carefully.

Saving pocket money

Okay, you must be thinking, pocket money is meant to be spent, then why are we talking of saving? This is because the primary rule in prudent financial planning is to save first and spend later. When you receive your pocket money for the week or the month, first keep aside a small amount as saving. You can grow money only if you save and you can save only if you spend less than you receive. A good way to ensure this is to save first before spending the money you receive.

How much should I save?

We consider around 30% as a good saving rate. So if you receive Rs 1000 as your monthly allowance, you should first keep aside Rs 300 as savings. The remaining Rs 700 can be spent. You may think 30% is too high a percentage to be set aside. If so, start with 15%, and then gradually increase it to reach 30%.



Model: Kenyon Alfonso

How can I save pocket money?

The first way is to set aside money as savings before you spend. Sometimes, even the money which is kept for spending is not fully spent. So in the above example, out of Rs 700, you may spend only Rs 500 during the month. The remaining Rs 200 can also be saved, instead of being used for next month's expenses. This way, you can grow your money. Put the savings away in a separate place and do not keep it along with the money used for expenses.

Plan your investments

The money which you set aside will not grow if you keep it lying idle as cash. Take the help of your parents and open a savings account, a recurring deposit account or a Systematic Investment Plan (SIP) in a mutual fund. By regularly investing your savings, you can create an asset which can be used for future purposes.

Budgeting and keeping a check on expenses

Saving is one important aspect of your pocket money. But a more important thing to keep in mind is to stop unwise spending of the allowance. When the month begins, plan your monthly budget by estimating your expenses of various expense heads. There may be some instances when you want new clothes or to watch a movie. Include these in your budget. Track your expenses on a daily basis. Remember that every penny counts. So, plan to spend your money wisely. Think of innovative ways of spending time with your friends which does not involve spending money. This can include playing football or going to the park or beach.

One way of keeping a check on expenses is to avoid carrying all the pocket money you get in your wallet. Instead keep it in an envelope in a safe place. Take only what you may need during the day with a small amount

of emergency cash when you go out. This way you won't be tempted to spend.

Goal setting

In life, it is very important to establish goals and save wisely keeping these goals in mind. When you get pocket money, plan the important expenses you will incur during the month. Of these, prioritize what is most important for you. When you learn to prioritize your

How much money should I give my teen?

Parents are often in a dilemma as to whether to give their teen children an allowance or not, and if yes, how much to give? Teenagers today are learning to become more independent, and giving them a regular allowance will help them become financially responsible.

The amount of pocket money you give your teen varies, depending on how much of his expenses you are willing to bear. It also depends on your child's maturity. You can ask the parents of your teen's friends to get an idea. Whatever be the amount, be consistent in what you pay and also regular.

Teenagers may not like it very much if you monitor and micro-manage their spending habits. It will also curtail their independence. Nevertheless, as a parent, you should set some broad ground rules which need to be followed. Ask them to maintain a log book which can help them track their expenses. Help them plan their expenses and include an amount which he/she can spend as they please.

Understand that times have changed and a teenager of today is under constant pressure to 'fit in' with friends. However, you should also not give in to all their demands as this can result in them becoming lax with respect to money matters. Maintaining a fine balance between the two ends of the spectrum can help your teenager in a big way.

Teach them to 'shop around' and compare prices before deciding to buy something. Encourage savings habit and take an active role in planning how to invest the saved money. Give them a bonus when they successfully manage their money. This will encourage them to do better and also teach them the importance of being financially prudent. Be a friend to your teenage son or daughter and facilitate learning by giving them practical training.

needs and wants, you can ensure that you do not spend on unnecessary things. If you want something expensive, then start saving for this out of your allowance. This way, you can buy your own things and not depend on your parents to pay for them. This also teaches you to be independent.

Receiving pocket money or an allowance from your parents teaches you to become financially disciplined and independent. Spend your pocket money wisely, save regularly and plan your investments sensibly to become more financially happy in life.

Smitha Hari is an MBA in Finance with over 7 years' experience in the fields of investment banking, equity research, consulting and banking. The co-founder of a financial consulting firm and a freelance writer, she has co-authored three eBooks on personal finance. She writes and edits the personal finance articles on GettingYouRich.com, and specializes in evaluating personal finance products from a client's perspective.

