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Allowance 2.0

With kids spending billions online -- and charging it to mom and dad -- families are ditching the traditional weekly cash handout. Teaching the value of a buck in a cashless economy.

By JOHN JURGENSEN
 January 6, 2007

Each month, Dagny Collier of Richmond, Va., sits down at her computer with a stack of bank and credit card statements, consults a notepad scrawled with IOUs and begins transferring funds between accounts.



Frank Veronsky

The goal of all this accounting? Managing her kids' allowance. Her sons, ages 8 and 12, rack up all kinds of charges -- from \$5 a month to play an online game called RuneScape to PayPal charges for eBay collectibles. And they just got MP3 players for Christmas, meaning music download fees could be just around the corner. All of which is making traditional cash handouts pointless. "I have no idea what they're supposed to owe me," Ms. Collier says. "But they're definitely getting the better end of this bargain."

The rise of digital entertainment has upended whole industries, from Hollywood to the music business. Now it's striking at a touchstone of the American family: the allowance. Kids are pouring money into things that can't be bought with cash -- music downloads, cellphone ringtones and online videogames. JupiterResearch estimates teenagers spent \$3 billion online last year alone. In many families, the upshot has been the demise of the weekly cash dole that parents have long used to teach kids financial responsibility and keep them from busting the budget.

Instead, "giving the kids their allowance" now often entails untangling a complex web of electronic transactions. It means figuring out which sibling blew \$29.99 to download Season 4 of "South Park" on iTunes and getting someone to fess up for charging those Jay-Z ringtones to mom's cellphone bill. Some parents find themselves taking on the role of bill collector and dunning their kids for reimbursement, while others are throwing up their hands and giving up on spending limits altogether.

Barbara Howe is frequently flummoxed by her cellphone and credit-card bills. In a recent month, she found the following charges racked up by her 14-year-old son Lucas:

- \$2.99 ... MLB Baseball
- \$4.99 ... ESPN BottomLine
- \$7.99 ... Tetris
- \$0.25 ... eBay bid alert
- \$3.98 ... Guy Stuff bikini girl wallpaper

WSJ.COM PODCAST



Journal reporter John Jurgensen looks at the growing popularity of the virtual allowance and how parents are using technology to track their children's spending habits. [Listen to the podcast.](#)

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\$32.67 ... iTunes downloads

One persistent financial drain: when Lucas's neighborhood friend comes over and the two start downloading songs at 99 cents apiece. "It's killing me," Ms. Howe says.



Asher Freedman watches his brother, Ryan, play RuneScape.

Jonathan Olson/Getty Images

The problem is ratcheting up with each new generation of gadgets and services. Two of the holiday season's hottest gifts, the Nintendo Wii and Sony PlayStation 3, both have a feature that lets players go online to download games (\$8 per game in the case of PS3) and charge them to an account. And kids are increasingly signing on to Web-based fantasy worlds -- Club

Penguin is popular with grade schoolers -- that automatically charge membership fees to parents' credit cards each month.

Some parents are turning to new allowance-tracking Web sites or special kid-oriented prepaid debit cards that email mom or dad each time their child makes a charge. Others are devising elaborate household accounting systems of their own, complete with Excel spreadsheets.

Trying to hold kids to a spending limit is especially complicated for families who tie the allowance payments to chores. John and Deanne Parker of Barrington Hills, Ill., used to pay the kids cash each month for jobs like setting the table or caring for the pets. Then, Nick, Rachel and Sarah started buying more stuff online. Ms. Parker, a child psychologist, had to make mental notes of the completed chores and reconcile them with the online charges, which, to complicate things further, the kids often billed to Mr. Parker's credit card. "They could play mom against dad," says Mr. Parker, a principal at management consultancy Katzenbach Partners.



John and Deanne Parker watch daughter Rachel spruce up her virtual bedroom on Habbo.com

Peter Barreras

It quickly became unmanageable. The Parkers tried using a grid on a whiteboard in the kitchen which they filled in with the kids' names, their chore rotations and itemized purchases. But that, too, got confusing as the kids swapped jobs and played tricks on each other by tampering with the figures. At one point, Rachel agreed to do the dishes for Nick but only for a \$100 fee, putting him deep in the red. (Mr. Parker had to step in and rebalance the board.)

One night over Sunday dinner the various disputes over who was owed what by whom boiled over. "We were all shouting at each other about what the net balance was," Mr. Parker says. "The system collapsed under its own weight."

His latest technique: Pay dad in cash first, then shop online.

Allowance 2.0 essentially upends the traditional notion of giving kids money and letting them spend it until it runs out. Under the new model, the spending often comes first, leaving parents to tally up their kids' electronic transactions and make sure they've stuck to their budgets.

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HOW TO PAY YOUR KIDS



When to start: Experts say kids can start receiving an allowance around age 4 or 5, when most children begin to understand how money works.

How much to pay: Don't pick an arbitrary figure. Eileen and Jon Gallo, authors of "The Financially Intelligent Parent," recommend keeping track of how much you spend on your child daily for two weeks, and setting an amount based on the average.

Chores: Many experts now advise against linking allowances to household chores. "Allowances are there for learning how to manage money," says Mr. Gallo. Discipline kids by withholding privileges, like TV or videogame-playing time, not money.

Digital spending: Several entertainment sites allow parents to set spending limits for their kids. On iTunes, for instance, parents can load a set amount to their kids' accounts every month; Sony PlayStation's online store has a similar service.

In some cases, parents say their new allowance systems, however unorthodox, have actually improved their kids' financial savvy. Rachel

Freedman was so exasperated trying to remember to collect reimbursements from her sons for their online game subscriptions -- including \$13 a month for World of Warcraft -- she went to a totally cashless economy. She set up a tracking spreadsheet on her BlackBerry to give her up-to-date balances for 12-year-old Ryan and 9-year-old Asher.

During a recent visit to the local Apple store in Farmington, Conn., Ryan and Asher debated whether to share the \$75 cost of a new videogame. Ms. Freedman pulled out the BlackBerry. It revealed standing balances of about \$230 each, which they'd saved up through a combination of their weekly \$7 allowances, holiday gifts and payments for extra chores.

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After reviewing their accounts the boys decided not to deplete their funds, which they each had earmarked for bigger buys, including an acoustic guitar, or maybe a compound archery bow. Eventually, they cashed out and bought themselves iPods.

The new allowance system has "definitely made me a better saver," Ryan says. Even so, he acknowledges that it's tougher to score impulse purchases now that his mom is armed with a BlackBerry. "Sometimes it's really annoying," he says.

New services have cropped up to deal with such challenges. On PAYjr, an allowance-tracking Web site that was launched in the spring, parents can create lists of chores with corresponding dollar amounts. When kids check off their completed chores, money can be automatically transferred to a prepaid debit card. One software program, called My Reward Board, features a chore chart and a cartoon piggy bank where parents can "deposit" allowances.

New prepaid debit cards are being marketed with an eye towards parents who want to monitor their kids' spending. They include the Allow Card, affiliated with MasterCard, and Plastyc's new UPSide card, which carries the Visa brand.

Becky O'farrell first had the idea of getting her 15-year-old son Casey a Visa Buxx card when he and his sister visited their aunt in Colorado last year. The prepaid card lets parents go online to load it up with money and replenish it as needed. Now, Ms. O'farrell uses it as a handy allowance tool. She puts Casey's \$11 weekly allocation on it, and every time there's a transaction, she gets an email notice.

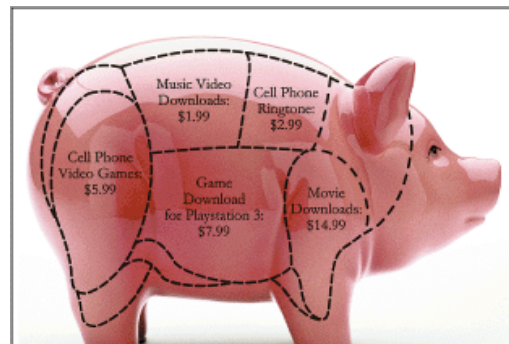
On one recent weekend, for example, she retraced Casey's night out with his friends at the mall: two stops at Chick-fil-A and another at the multiplex. "It's my job to be nosy," says Ms. O'farrell.

The plan isn't foolproof. When Casey recently bought gas for his friend's car, he didn't realize there wasn't enough in his account. The transaction went through anyway, and the bank charged him a \$20 overage fee.



Jonathan Olson/Getty Images

The BlackBerry that Rachel Freedman uses to track her kids' allowances



Arianna Huffington,
Commentator and blogger
Allowance policy: \$300 credit limit for 15-year-old daughter; \$500 limit for 17-year-old

Comment: Each daughter is issued a credit card with a strict limit, but must discuss large purchases with their mother. "It teaches them to manage their habits," Ms. Huffington says. "They could blow the entire \$500 on a pair of boots, but that hasn't happened."



Xzibit, Hip-hop artist
Allowance policy: \$25 to \$50 a week

For some parents, these services can be all-consuming. Carolyn Wilder of Palo Alto, Calif., has a system

called EasyChild which has features like an allowance calculator and "weekly behavior chart." But with five kids to keep track of, she supplements that with her own "master workbook," an Excel spreadsheet with tabs designated for each child that list the chores they have to complete and the money they earn for them.

The kids each get allowance of \$25 a month, but can make more, with premium pay of about \$5 for the most unpopular duties, including washing the dishes. The system also includes demerits, which comes out of their balances. Recently, her son got five demerits for eating chocolate-chip cookies in bed.

"My husband calls me organization personified," says Ms. Wilder.

Nationwide, the practice of giving kids a traditional allowance has been on the wane, according to a survey by Teenage Research Unlimited, a market research group. It found that this year, only 20% of kids ages 12 to 19 received a regular allowance, compared with 28% in 1999.

Historians generally date allowance-giving to the late 19th century, when the practice of child labor began to decline, and middle class parents began assigning household chores in exchange for pocket money. "Children went from being economically useful to becoming a sentimental asset," says Viviana Zelizer, a Princeton University professor who traced the origins of the practice in her book, "Pricing the Priceless Child." By the turn of the century, says Yale University historian Stephen Lassonde, the allowance had morphed into a parental tool for teaching kids how to manage money.

Jackson Collier, 12, says he's adapting to Ms. Collier's tracking system, and is sometimes jealous of his friends who still get a regular cash allowance. Recently, he spent \$10 on gold coins for use in the online game RuneScape, but couldn't be sure how much his mom ended up deducting from his account. "She could be conning us," he says. "But I trust her I guess."

Write to John Jurgensen at john.jurgensen@wsj.com



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