3 Foundational Ways to Boost Your Child's Financial Literacy

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This is one of several upcoming articles focused on financial-literacy tips and activities for parents inspired by the new Entrepreneur Kids book series. The first title in the series, Entrepreneur Kids: All About Money*, is available for purchase now via* **Amazon | Barnes & Noble | IndieBound | Bookshop | Entrepreneur Press**.

From the time your child enters kindergarten or first grade, their literacy is of the utmost importance. The ability to read and write is considered a baseline necessity in today's society. Another necessity is understanding how to spend, save, invest and allocate money, and yet, financial literacy is not valued as an equal priority. Some say it's because every household is different, and some say children can wait until they're older to learn how to manage money. But the truth is that financial literacy is a tool that needs to be ingrained in children from the get-go.

According to a recent report from Youth.gov, high school seniors only answered 48% of questions on an exam about basic financial literacy correct. The rates are even more dire for individuals who come from low-income families, which can have dangerous long-term impacts. Once young adults can qualify for credit cards and take out loans, the possibility of digging

holes of debt in bad financial decisions becomes a very real danger.

Whether you've never had a conversation with your child about finances or it's been a priority for your family since they were young, these five suggestions will help you to teach your children about financial literacy and wise spending (and investing!), tools that will serve them for the rest of their lives.

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1. Start them off with a monthly or weekly allowance

One of the greatest pitfalls that can occur in your child's financial literacy is their belief that there's an unlimited supply of money. This is particularly easy to fall into if you're accustomed to just giving your child one of your credit cards, or paying for whatever they want or need the moment they ask. Giving children an allowance is a profound way for you to budget what you're giving your child, and for them to learn in real time about what it means to manage a small sum of money.

How much allowance you give is up to you, including how you give it. Some parents choose to have their children earn their allowance via monthly chores, with the opportunity to earn more money (like extra credit) if they do more chores. (For example, beyond their baseline weekend chores, you could say the "rate" for cleaning each window of the house is $0.25 per window.) Some do a combination of both, with a "base" allowance rate and the opportunity to earn more based on the chores. Or, it doesn't have to be linked to chores at all.

As for how much to give, Mike Falco, president of Falco Wealth Management writes in Market Watch that a good rule of thumb is $1 per week based on how old the child is; so $5 per week for a 5-year-old, and $15 per week for a 15-year-old, etc.

2. Use this allowance to help them learn how to manage their money

The nature of an allowance should prompt freedom while teaching kids about limitations. They can have free reign over what to do with their money, but also need know that when they run out of money for the week or month, then they're simply out of money. Some parents give their children free reign right off the bat so they can learn from their mistakes quickly, and equate spending everything they got quickly with a "bad" financial decision.

Many parents opt to teach money management through allowance. For example, giving your child $100 for the month, but then teaching them to earmark $20 as short-term savings and $20 as long-term savings, letting them keep the remaining $60. The amounts can differ based on the values in your household, but stressing the importance of paying themselves first by subsidizing their savings account is a powerful tactic.

3. Teach investing

For as murky as money management, credit cards and savings accounts are for children, investing is even more confusing. It's usually taught through the lens of building a retirement fund, which is the last thing on a child's mind when they're applying to colleges or graduating high school. And even then, only 39% of individuals in their 20s begin investing in a retirement plan, according to the Morning Consult.

A better plan is to help your children understand the basics of investing and what it means to make your money grow.

Nowadays, apps like Acorns and Robinhood make investing accessible. Here's how it can work: Create a family account for investing, and allow your child to invest as much of their allowance as they want (or, you can tell them how much to invest). Rather than giving the money to them directly, allocate this money into a stock of their choice. Ideally, this should be one they really believe in; maybe Nike if they love their shoes, or Disney if the family just watched a great movie from the studio. Then, you can track together how the money grows. If (and when) money is lost, this too is a great learning opportunity.

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Over time with these foundational practices, your children will feel equipped to handle the "real world" and their financial decisions because they've practiced the art of saving, investing and managing their disposable income. And this will, in turn, give them a significant leg up once they leave the nest and start making their own money. And that's something all of you will want to bank on.

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