



Teaching  
children about  
money

## FINANCIAL LITERACY MAY BE AS IMPORTANT AS KNOWING HOW TO READ AND WRITE

“Financial literacy is critical to the prosperity and well-being of Canadians. It is more than a nice-to-have skill. It is a necessity in today’s world,” writes the Task Force on Financial Literacy in its December 2010 report, *Canadians and their money: building a brighter financial future*.<sup>1</sup> And, just like reading and writing, financial literacy can start early in a child’s life.

**Y**et, while 78 per cent of Canadian parents surveyed recently have made an effort to teach their children financial management skills, most (60 per cent) do not think they have been very successful, according to a study by the Canadian Institute of Chartered Accountants.<sup>2</sup> Here are five tips that can help you enhance your children’s and grandchildren’s understanding of money.

### Counting coins

As soon as children can count, help them identify coins and bills and add up different combinations. You can turn this into a game by making three piles of coins and bills and asking

which is worth the most. Emphasize that it’s not always the biggest pile, which may be full of dimes.

Then take a field trip. Visit a local shop and point out price tags on a range of items. Choose something relatively inexpensive — perhaps a package of light bulbs — and pay for it in cash to show how you exchange coins and bills for things your family needs. Show children that money is a tool that makes other important things possible.

### The three S’s

Encourage children to divide their allowance into three categories: spending, saving and sharing. “Spending” money is available for

them to use whenever they want. “Saving” money goes into a piggy bank or bank account. “Sharing” money goes to a charity your family supports.

Of course, in the real world, one benefit of saving is that money has a chance to grow. Before children have a bank account that pays interest, consider topping up piggy bank savings by a set percentage at the end of each month. It’s never too early to learn the power of compounding.

### Do you need it or want it?

Talk to children about the things they *need* versus the things they *want*. Use examples from your household. Needs may include nutritious meals,

<sup>1</sup> [www.financialliteracyincanada.com/pdf/canadians-and-their-money-1-report-eng.pdf](http://www.financialliteracyincanada.com/pdf/canadians-and-their-money-1-report-eng.pdf)

<sup>2</sup> [www.cica.ca/about-cica/media-centre/media-releases-and-backgrounders/2012/item63285.aspx](http://www.cica.ca/about-cica/media-centre/media-releases-and-backgrounders/2012/item63285.aspx)

school supplies and comfortable clothes and shoes. Wants may include candy and cookies, a video game or a trendy jacket.

Explain that needs and wants are different for different people and change throughout life. For example, that video game may be essential research for a 25-year-old animator — but it's a frill for a nine-year-old student.

### Goal-setting

When children ask for a new toy, talk about its value — in dollars and to them — and then help them create

a plan to buy it. Offer older children the opportunity to earn more money towards their goal by taking on chores beyond the ordinary — say, folding laundry, raking leaves or shoveling snow.

If children can make a strong case for a specific toy — for example, convincing you that it will help them learn a new skill — you may want to consider matching their savings dollar for dollar or topping up their savings to the amount they need after they reach a certain dollar amount on their own.

### Share your values

Finally, take the time to explain in simple terms why you save, invest and protect your assets with insurance and pay off debt as quickly as possible. Your reasons may include wanting to: build wealth, retire at a certain age, and/or make your family's lifestyle more secure.

Keep in mind that helping children understand the basics of financial planning equips them to make smarter financial decisions as they grow up and get more control over their own money — and that it may be just as important to their future success as learning to read, write and count. ●



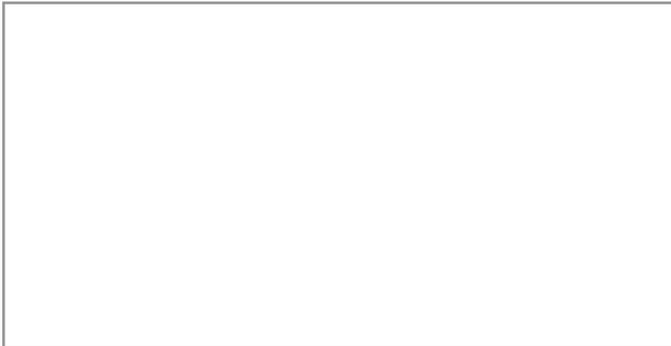
## MONEY LESSONS FOR CHILDREN OF DIFFERENT AGES

**UNDER 6:** Tour the grocery store and explain why you are making certain decisions — for example, choosing a store brand to save money, picking the smaller box because it's heavier (and has more in it) than the larger box, or buying just enough perishable food so it doesn't go bad. Show children that good money management starts with simple, everyday choices.

**6 TO 12:** Analyze a television or print ad for a toy. Then help children research whether a different product offers better value and encourage them to question advertising promises. Ads are everywhere and it's important to prepare children to look past catchy headlines and think critically about the pros and cons of any purchase.

**12 TO 18:** Offer children a small loan to buy something they want. Explain the interest you will charge and calculate what they will owe if they pay you back within six months, within nine months or within a year. Understanding debt is essential since children will likely be inundated with credit card offers when they head off to university.

# Solutions



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