MONEYBAGS™

A Guide to Teaching your Kids About Money

Sample Chapter

Wendy Gillespie, MBA, CFP®

Praise for MoneyBags

"*MoneyBags* is full of practical, fun, and simple tools to teach kids about money. Wendy presents a complex and often taboo subject in a way that empowers parents and kids alike."

—**Deirdre Van Nest**, PROFESSIONAL SPEAKER AND PERFORMANCE COACH, WWW.FIREYOURFEAR.COM

"Some of the most powerful words in our language are at the foundation of this wonderful, fun and important new book by Wendy Gillespie. *MoneyBags* is about prudence, choices, discipline, character, self-reliance, family, and yes… it is also about money and creating good money habits. Gillespie weaves personal stories with philosophical principles. She provides simple explanations for each concept introduced, and she always provides an easy way to get into action. What a gift we give, when we teach our children, and grandchildren the truth about money!"

—**Ed Kelly**, FOUNDER, SUMMIT JOURNEY COACHING

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Wendy Gillespie, MBA, CFP®

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Dedicated to my money mentors:
Louise (Mom), Phil (Dad), Imogene, and Ned (MoneyBags).

Thank you for taking the time
to teach me about money!

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Chapter 3
Commit to Breaking the Cycle

As a Certified Financial Planner, I have noticed over the years that, for the most part, older generations disclosed little financial information to their children. Many adults know nothing about how much money their parents earned, their net worth, or how they invested their money. As their parents age, this becomes a challenging issue. Often, the first conversation about the taboo topic of finances is initiated when parents' health is declining or after they have passed away. I cannot count the number of times my clients have had to scavenge through files to try to piece together their parents' entire financial picture, not to mention the frustrating hours and money they spend trying to find detailed, comprehensive information for me, a tax advisor, or an estate attorney.

Parents are most peoples' primary source of learning about money—most people don't seek outside sources to educate themselves and money management is not taught aggressively at school. If parents don't teach their children at home, what are the odds that children will understand money and become good money managers?

Break the cycle! Begin educating your kids about money. Opening up to your kids about your financial situation is an important first step, though it can be challenging. Start slowly, to establish a comfort level for yourself and your kids. The lessons will need to be age-appropriate. Consider taking baby steps by talking to your kids and showing them small pools of money that you have, whether it is how much you carry in your wallet or purse, loose coins, or a stash of emergency cash you keep in the house. This process is not a sprint, but a marathon.

Talk to your kids about money

Your children also need to understand that this information is private and personal—not to be spoken about outside the family, with the exception of financial professionals (such as financial advisors, accountants, bankers, and estate attorneys). This is an important step in preparing your kids for responsible adulthood. They need to realize the potential dangers of the wrong person finding out too much of your financial information, such as Social Security and account numbers. They need to understand the risks of identity theft. The overall goal is to be open with them about the costs of things, purchasing decisions, your income, taxes, and your net worth (as appropriate and relevant to their ages).

Your MoneyBags Mission

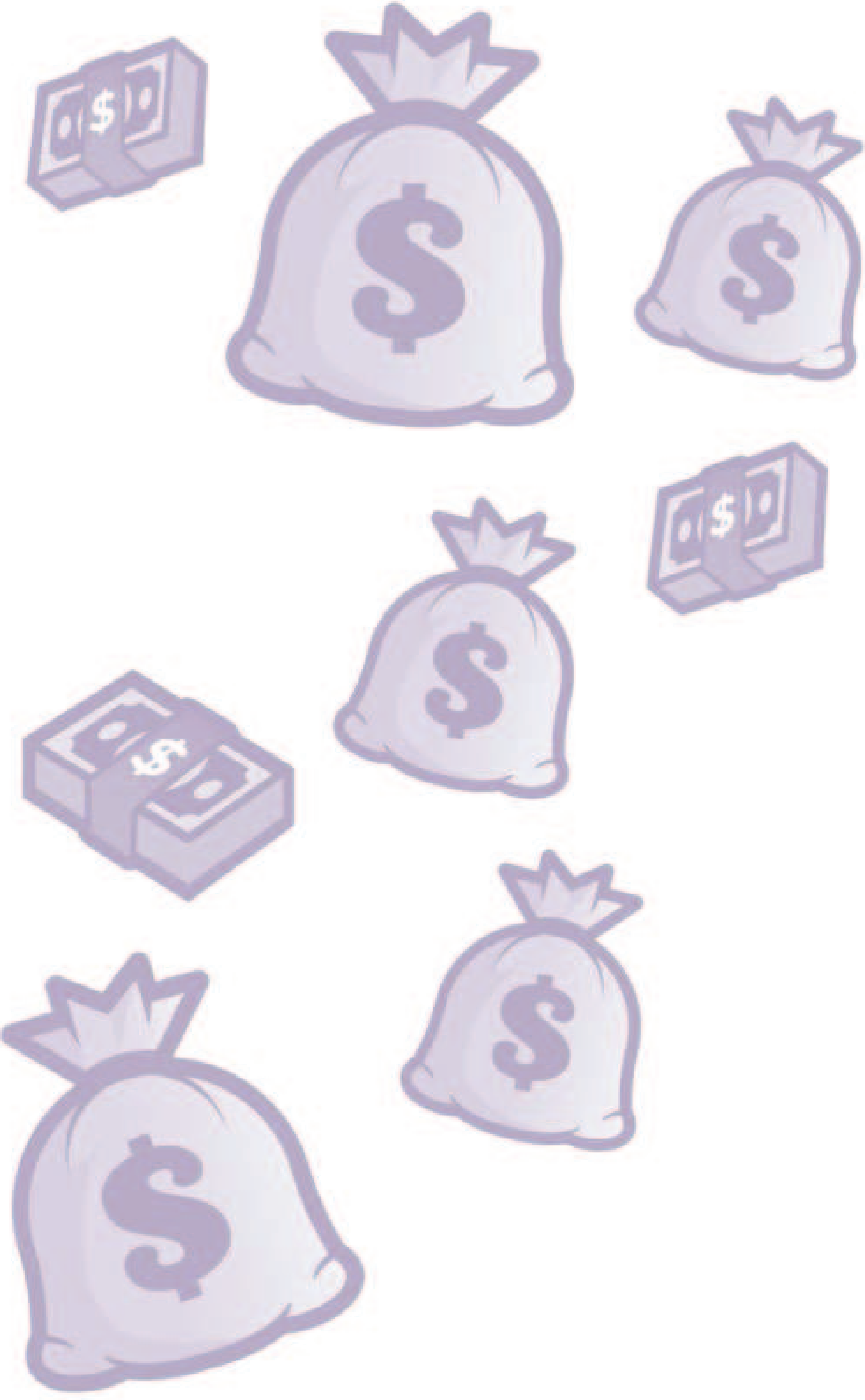
As a fun starting point to change this legacy, begin by setting aside some time for a family meeting. Make a commitment to your kids that you will be open about money, and teach them at every opportunity. Make these your MoneyBags Moments. Pick a day of the week, such as Saturday morning, to work through the different passages of this book, covering topics such as savings, taxes, and good habits.

To make it official and help reinforce the importance of keeping money matters private, consider creating an agreement and having everyone in the family sign it. Go to MoneyBagsLife.com for a free turnkey agreement.

To really make it a memorable event, consider going a step further and mimic the movie *Divine Secrets of the Ya-Ya Sisterhood* by having your kids take a family oath to keep the family financial information a secret. Have fun with it! Wear crazy hats, make a bonfire, sing a song, bow, and kiss the Family Savings Jar. Unleash your creativity!

I [insert your name] solemnly swear [everyone put a hand on Family Savings Jar] that I will keep all family financial information private. I will only use this information for good and not bad, despite [insert the name of the biggest person in family] tickling me! I will only share our family's financial information when we need advice from outside financial professionals, since we will have so much money that we'll need their help. I realize if someone in the family slips about private information that the sacred bond will be broken and all the money in our Family Savings Jar will be given to charity. [Now, pinky swear!]

As you know, kids say the darnedest things. At some point they may slip and tell someone your financial details. They are kids, they are human, and they are learning, so they will make mistakes; we all do. Hence, you will need to keep the amount and nature of the information shared age-appropriate, continually reminding them to keep money matters private. Keep in mind that at the end of the day, the goal is to teach them about money. Ultimately, a slip means they were learning and listening, but likely got excited and forgot all the rules. When this happens, remind yourself that this is a MoneyBags Moment. It might be embarrassing, but simply pull your child aside and calmly remind them that family money topics are for family members only, "Remember the ritual and the pinky swear?" To reassert the importance of the message, follow through with the oath and go back to square one (rip up the failed agreement, decommission the Family Savings Jar, take all the saved money and give it to charity). A week later, pick out a new Family Savings Jar, create a new agreement, get crazy, and take the family oath again.



Chapter 11
Taxes

One beautiful summer day, I was sitting in a boat on a lake, enjoying the peaceful rocking with my friend and her family. This was the last place I thought I would learn about money, but I did, and I laugh every time I think of it. My girlfriend's daughter Bridget (age 6) was hungry, so she asked her mom, Ali, for a sandwich. Sure enough, Ali, who is also in the money business, pulled the sandwich out of the cooler, took it out of its little plastic baggie, and just before she handed it over to Bridget took a HUGE bite out of it. Bridget's priceless response was, "I know Mommy—taxes."

Taxes! Ask anyone and they will almost always cringe when you start talking about taxes. Often you hear people complain about paying taxes, but it does not mean that taxes are bad. Taxes actually serve an important function in our day-to-day lives. So, what are taxes? Taxes are simply a financial fee, based on one's income or purchases (sales tax), that everyone has to pay to raise money for basic services such as schools, roads, sewers, jails, and libraries, and benefit programs like Social Security, unemployment, Medicare, and Medicaid.

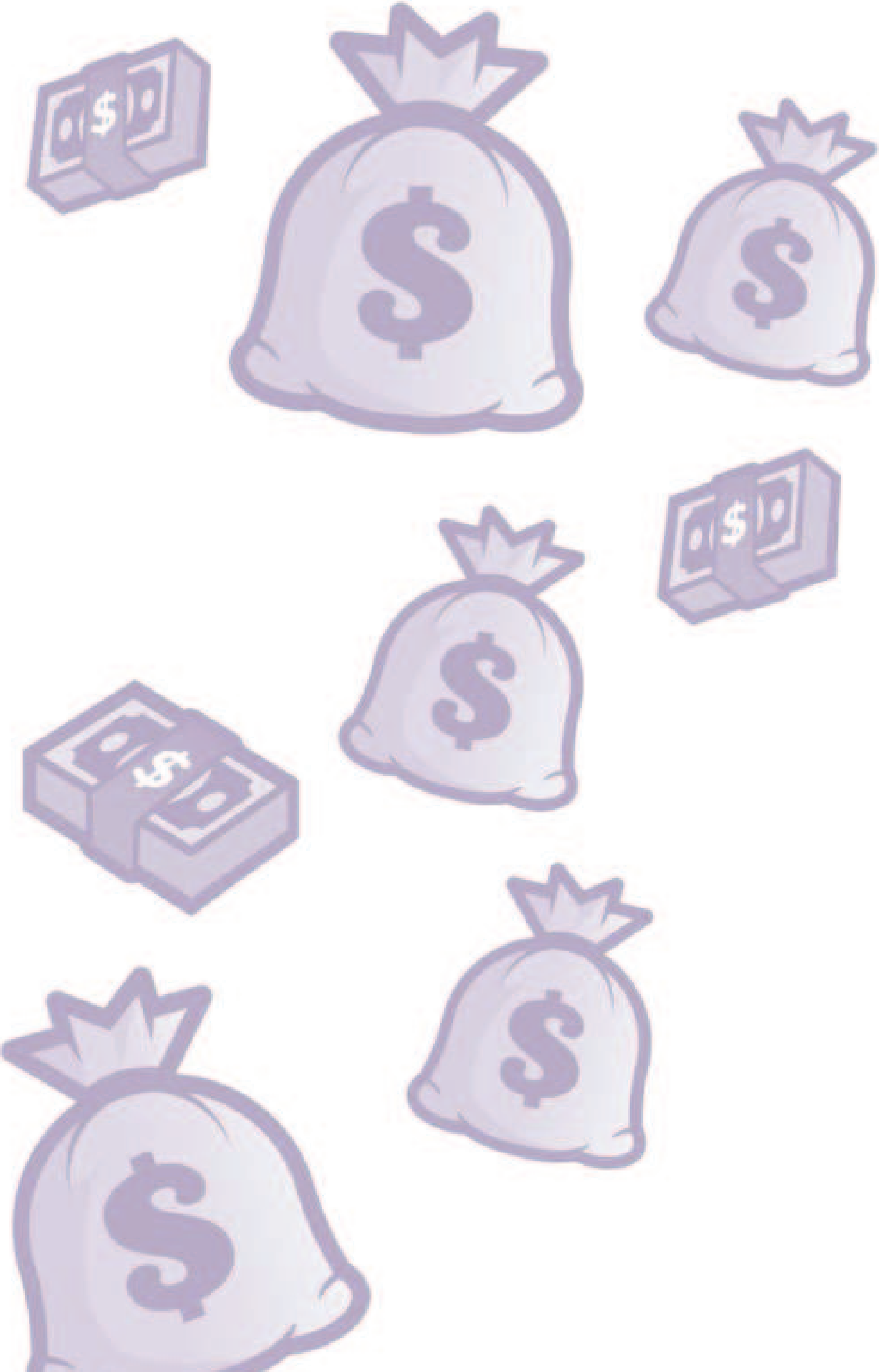
The way income taxes work is that everyone is required to pay a percentage of their income to the government for these services. For example, in allowance terms, if the tax rate is 10% and your children's allowance is $10, then they owe $1 to the government. It is important to know that in general, the amount of taxes you pay is determined by two things. First, the percentage you are required to pay is determined by the government; over time, the percentage goes up and down. The second is based on your income. In the simplest of terms, assume everyone is taxed a flat 25%. If you make $10,000, your tax bill is $2,500 ($10,000 x 0.25 = $2,500). Consequently, if you make $40,000, you will pay the same percentage of tax, but you now owe $10,000 ($40,000 x 0.25 = $10,000). Similarly, if the government raises taxes to 30%, the person making $10,000 now owes $3,000 in taxes ($10,000 x 0.3 = $3,000) and the person making $40,000 now owes $12,000 ($40,000 x 0.3 = $12,000). So, if your children's allowance is $10 and the tax is 30%, they now owe the Family Tax Kitty $3 ($10 x 0.3 = $3).

Your MoneyBags Mission

To give your kids a hands-on experience of where their taxes go, consider a field trip to the local fire station, police station, library, or park. Explain that everyone's tax money goes toward funding these services for the community.

When you go on an errand run, have your kids write down or call out all the things they see that exist because of taxes. After your outings, show your children the receipts from items purchased and look at what percentage was paid in sales tax. Have your kids track money spent on taxes for a month by collecting all your receipts. With your kids, evaluate the taxes paid. Is the percentage of tax the same for food and clothing? Does the percentage of tax vary from city to city? Have your kids tally the amount of money spent on taxes for the month. Then, have your kids multiply that amount by twelve to find your estimated sales tax for the year.

For fun, consider going a step further by going online and looking up the federal income tax rate tables for this year. Depending on your comfort level, have your children locate your highest income tax bracket and the rate at which are you taxed.



Chapter 17
How Big is Their MoneyBag?

The movie *Pretty Woman*, starring Julia Roberts as Vivian, is a classic. Vivian is a professional escort whose customer turns out to be a rich business tycoon and the man of her dreams. The part I love is when Edward, played by Richard Gere, gives Vivian money so she can buy “respectable” clothes. She goes shopping on Rodeo Drive, the upscale boutique district in Beverly Hills. She is excited to spend Edward’s money, but no one will wait on her because she does not “look” like she has money. Later in the film, when Edward finds out that her shopping spree was sabotaged, he cancels all of his appointments for the day to go shopping with her. He enters a store with the air of someone dripping of money. He tells the salespeople that he is going to spend an obscene amount of money. After a couple of hours of shopping and thousands of dollars spent, Edward returns to work. Vivian, however, backtracks to the store where the shopkeepers refused to wait on her. She enters and says, “Do you remember me? You work on commission right?” She then lifts up all of her shopping bags in her hands, looks at them, flashes her huge smile, and laughs, “Big mistake, big, HUGE!”

As a family of entrepreneurs in a rural area, we had a couple of sayings. “If they have mud on their shoes then they have money in their pockets” and “Don’t assume that how someone dresses determines if they are poor.” In other words, don’t judge the bag lady until you see what is in her bag.

So how do you know if someone is “rich”? I find this to be an interesting question. As an outsider, it is hard to determine who is prudent with their money. Most people do it the only way they can—by calculating the amount of “nice stuff” people own. This, however, is not a good measure since people who have all the “toys” don’t always have money set aside in investments. In other words, many times people think the Spenders are the ones with all the money because of their “stuff.” A Spender will be open to buying a new car every couple of years, while Savers and Hoarders tend to drive their cars “into the ground” before purchasing their next cars. Savers and Hoarders see cars as a poor investment since they depreciate, losing their value over time. The car simply exists to get them from point A to point B. Don’t get me wrong, many rich people buy nice cars, but they don’t pay for extremely expensive things until they reach the Icing Level and can afford to splurge. Rich people limit their debt and save money on a regular basis to invest in appreciating assets, such as stocks, bonds, or mutual funds, that tend to grow in value over time.

As a Certified Financial Planner I get to see everything in a client's financial house. I know their income, goals, and money personality. I also know if they are working toward their goals by being disciplined or if they are jumping to the Icing Level. Lastly, I know my clients' net worth, which is an excellent measure of financial success. To calculate your net worth, simply add up all of your assets (stuff you own) and subtract all of your liabilities (money you owe).

The book *The Millionaire Next Door* by Thomas J. Stanley, Ph.D., and William D. Danko Ph.D., does an excellent job of describing typical millionaires. As stated above, too many people assume the amount of one's depreciating assets (cars, boats, watches, clothes, etc.) is a good measure of one's wealth. In reality, your typical millionaire is investing money in appreciating assets and spending little on depreciating assets. In the book, the authors discuss a rule of thumb to determine if your net worth is strong relative to your income: Take your age multiplied by your gross income and then divide by ten. For example, if your income is $50,000 and you are 30 years old, then your target net worth is $150,000 ($50,000 x 30

= $1,500,000 and $1,500,000 / 10 = $150,000). If your net worth is equal to or greater than your target, you are doing great, if it is below, you need to look at what you can do differently to improve your net worth going forward.

> **Note:** *People often overestimate the resale value of depreciating assets. For example, if they paid $35,000 for a car, people assume that they can sell it for $30,000-$35,000 five years later, when actually the value may have dropped in half to $15,000. The reality is that once you drive the car off the lot, the value goes down substantially and continues to drop as the car gets older, damaged by everyday wear and tear. Thus, be conservative in your estimates.*

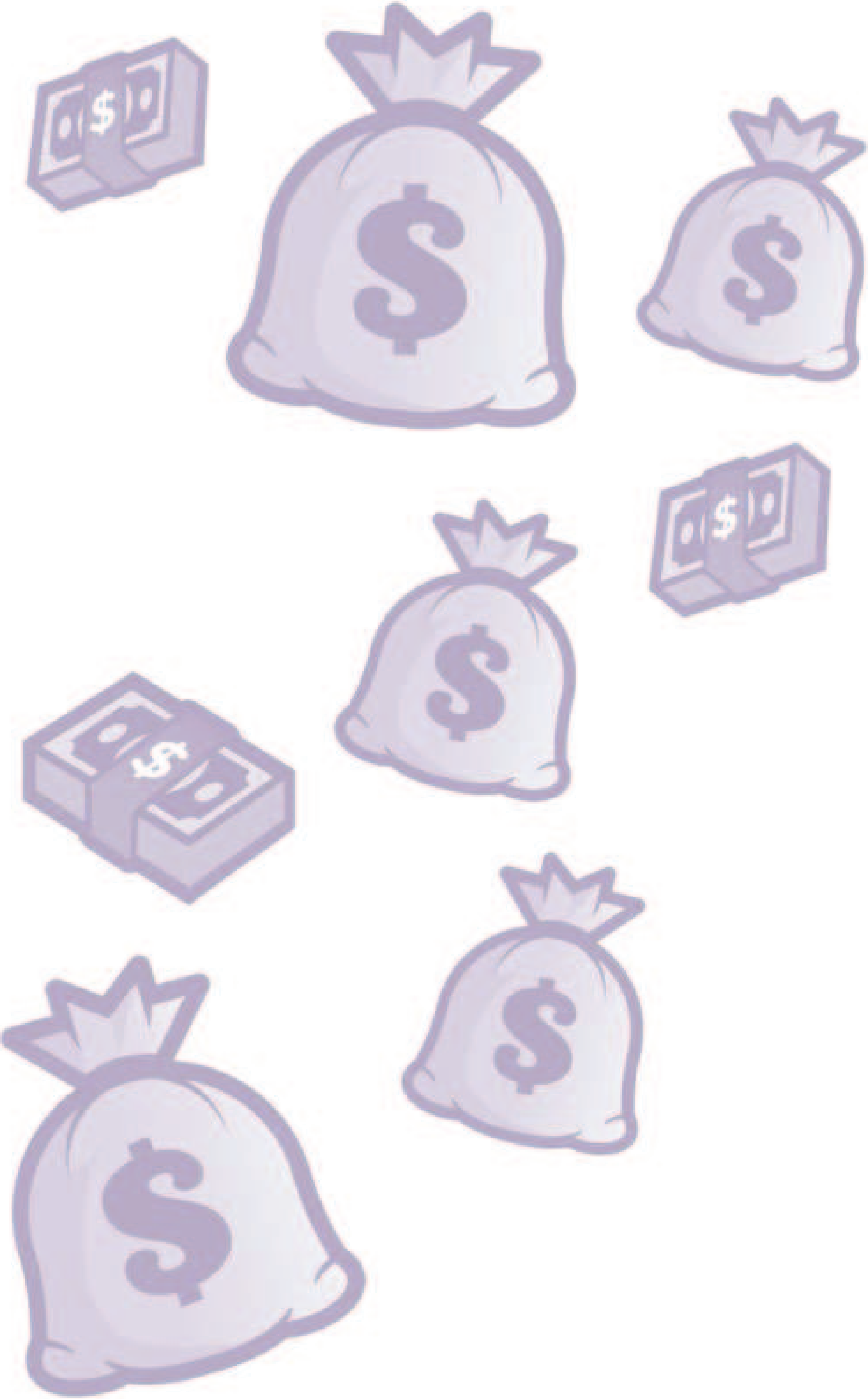
Your MoneyBags Mission

Calculate your target net worth. As a good personal exercise, calculate and track your net worth quarterly. To calculate, take your assets (house, cars, cash, investments, retirement plans) less liabilities (mortgage, home equity loan, car loans, credit card debt, student loans). For a free and easy net worth worksheet, go to MoneyBagsLife.com.

Consider getting your kids in the habit of tracking their net worths quarterly. As your children cross milestones ($10, $100, $1,000 and so on) make sure to congratulate them and acknowledge their hard work and discipline.

When you are out and about people-watching or driving down the road, randomly have fun trying to guess whether someone is "rich." How did you draw this conclusion? Doyou think maybe that person spends every dollar they make and has no money saved? How about when you see a small house—is the owner poor? Is it possible they have spent little money and have saved or invested most of what they earn?

Consider reading *The Millionaire Next Door*. This book does an excellent job of explaining the statistical facts about "millionaires." If you are not a big reader, step out of your comfort zone. Consider making it a family project to read a section weekly with your kids as part of your commitment to exposing your kids to good money management.



Chapter 31
Following the Rules

My favorite sport is volleyball and I play it several days a week. One thing that makes me chuckle is my girlfriend who is a stickler for following the rules. As she puts it, you don't follow SOME of the rules, you follow ALL of the rules. Often, she can gain a point by challenging referees when they are lax.

When it comes to money, following the rules pays off. So, what are the rules? They're simple: what did you promise? If you take out a loan, you promised to make timely payments, monthly, with interest until the loan is paid back. For example, if you take out a car loan for $20,000 with a 4.75% interest rate for five years, then you promise to pay $374 on the fifteenth of the month until it is paid off.

The cheapest and smartest way to accomplish your goal is to do exactly what you promised, or pay it off faster, assuming there is no prepayment penalty.

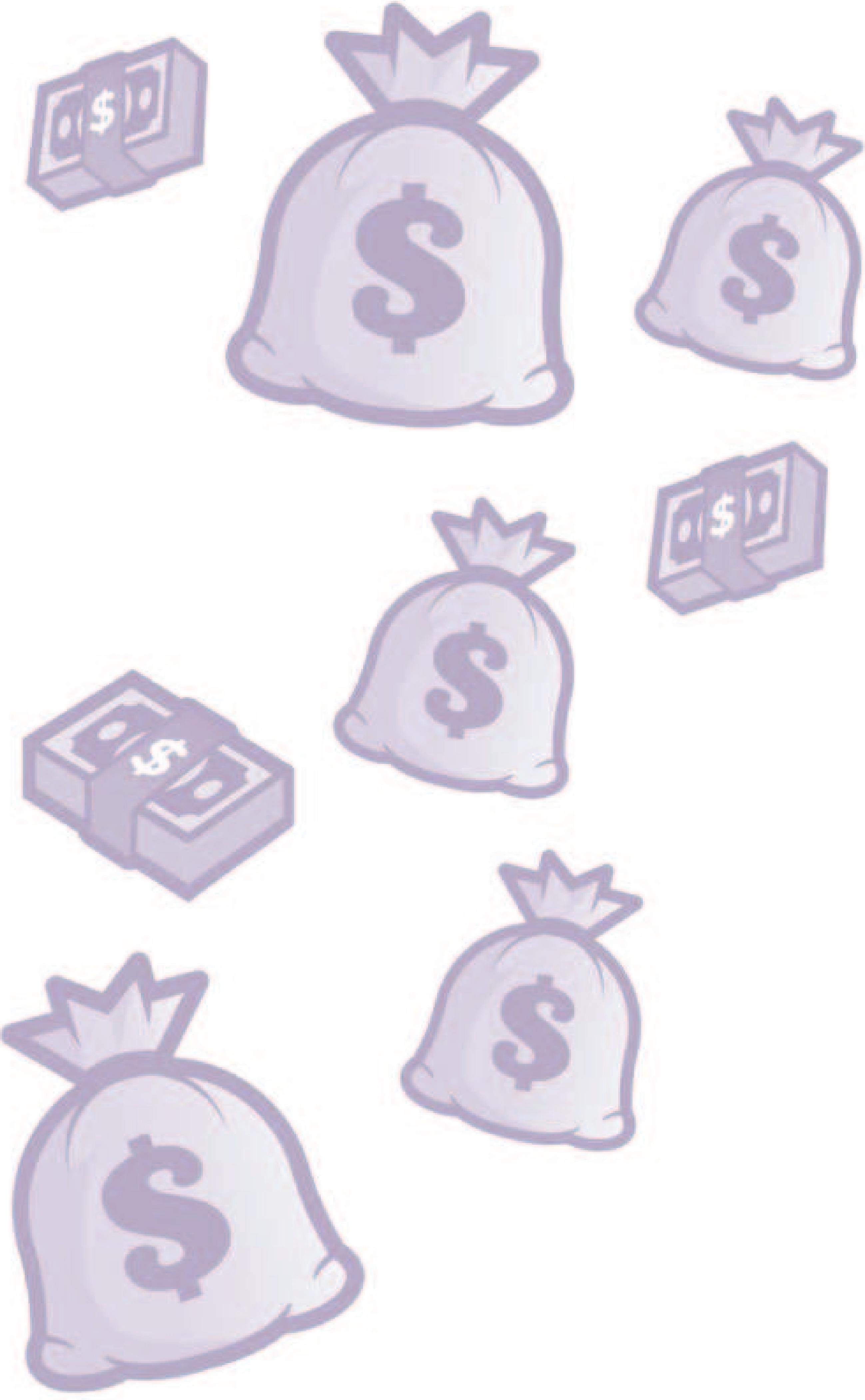
When you are late in making your payment, this disappoints the lender, which has a negative impact on you. They will charge a late fee, and if you are thirty days late, they will report it to the credit agencies. Negative reporting to credit agencies will make borrowing money in the future more expensive, since it will lower your credit score and show up as a blemish on your credit report. One win/win arrangement that several banks use is giving a lower interest rate if you establish an automated payment from your checking account. Every month the bank will automatically pull the payment directly from your checking account, and you get a lower interest rate and avoid late payments.

Your MoneyBags Mission

If you have a loan, consider looking at your online or paper loan statement with your kids. When are the payments due? Look at the history. Have your payments been paid on time or have they been late? Were you charged late fees? How do you pay your loans? Are they automated so you are not late or do you send the payments in the mail, which takes away the certainty of when a payment will be received?

Over the next couple of weeks, focus on following ALL of the rules. If the express lane in the supermarket says ten items and you have twelve, then go to the regular lane. Recycle all bottles, papers, and cans. Make sure to silence your cell phone when you go to the movie theater. Work on your table manners; don't start eating until everyone is seated and served, don't talk with your mouth full, no phone calls or texting at the table, say please and thank you, ask to be excused, and so on.

There are a couple of fun card games that demonstrate the importance of knowing the rules by always changing the rules. Both games work best with three or more players. One is called Fluxx, by Loony Labs. The game starts by dealing three cards out to everyone. Then you draw a card and play a card until the rules change, which will happen quickly. A more traditional game is Uno by Mattel.



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