

1. THE MAGIC POT

Teach your kids how to be financially secure by age 45. Learn what the rich people have figured out.

How I wish someone would have told me about this when I was starting out! During my first years of independence, I thought I would need every penny I make just to pay the rent, food, and necessary expenses. I figured that I had a long life ahead of me and that I would soon make a very decent salary from which I could start a savings or investment account. You can probably guess that the time it took me to start saving was much longer than planned. Please do all you can to convince yourself (it's not too late) and your kids that saving 10% to pay their future self should be their Number 1 priority.

Kids, take out a piece of paper - also get your calculator.

Some day! I'll bet you can't wait - you'll live in your own house. No one telling you what to do, you can come and go as you please, you can keep your room messy and sleep until noon!

Let's figure out what that will cost. Write down all the bills you'll have to pay in order to live in your own place:

Have them start thinking and writing – let this be a group project. The list should contain the following:

1. Rent or mortgage \$ _____
2. Electric bill \$ _____
3. Gas bill \$ _____
4. Water and sewer \$ _____
5. Garbage \$ _____
6. Insurance \$ _____

(give them extra credit if they figure this one out – not needed if renting)

Those are the expenses that attached to the house. Now you need to add the other stuff:

7. Food \$ _____
8. Car - payments, gas, oil changes \$ _____
(don't forget car insurance)
9. Entertainment \$ _____
(you have to go to the movies and out with buddies once in a while)
10. Clothes \$ _____
11. Sundries (what the Heck!) \$ _____
(Things like toilet paper, soap, toothpaste, etc.)

12. Gifts for Christmas, birthdays \$ _____

13. Miscellaneous. \$ _____

(No matter how disciplined you are, there will always be some kind of expenses that crop up.)

Total \$ _____

The dollar amounts are for you and your kids to fill out. It's more important to have a budget category with any estimate than to fret about accurate numbers. Of course, the real costs will vary greatly from place to place. Your kids will probably be as exasperated and as unrealistic as most of us are when preparing budgets. (This lesson is a string of bad news and good news – an eye-opener at many levels.)

OK, can you afford this? Let's start with the minimum wage and see how much money is left over after you make these payments.

Minimum wage times 40 hours per week times 4.2 weeks per month

OMG! There's not enough money to pay for living on my own!

Until this moment, your kids have probably not had to worry about money. With this epiphany, they can now join the rest of us and gain better insight to our society and culture. Better to have this shock now than when after they decided to cruise lazily through high school or to skip college.

A lively discussion ensues after which the kids believe they may have a plan to manage an acceptable lifestyle with very little money. Time to give them some more bad news about real life:

Sorry, I forgot to tell you - your employer takes out money for taxes, Medicare, social security, unemployment, and perhaps health insurance and workers compensation. You now have about 20% less than you thought you did.

What are you going to do?" Let's see, you could get a better job, work overtime, get a roommate, a smaller apartment, use a bicycle, etc. What you can't do, is think about moving back in with us or having Grandpa bail you out.

We hope they will realize that in addition to managing costs, they will also need to figure out how to make a better salary than minimum wage.

Step 2: Now let's imagine your job after school: Think of your worst teacher you've had - he/she is your boss. Think of the most annoying classmates you have had - they work in the next cubicle from you and he/she will probably get the next promotion and make more money than you. Your work may be kind of interesting or it could be as boring as your

worst class. Why do you think they call it "work"? You'd like to quit but you need the money and how do you know the next job will be any better?

(The aspect of a job being mundane is for illustration only. We assume and hope that your offspring will actually love her job and career.)

Don't despair! If you can start a magic pot and feed it for a few years, it will get big enough that someday you may not have to work at all!

How long do you expect to live? (90) What if you could spend the last 45 years not having to work or worry about money? Would it be worth a little sacrifice during the next few years to meet that goal?

Let's figure out how much you need to make every month. Should we use the budget number we figured before or will you need more if you're married and have kids and a bigger house...? Let's assume you'll need \$5,000 a month. Will you always need that amount - even when you retire? It would be nice to plan on that even after your kids have left because you'll want money to travel or to buy some nice things for your parents.

What if you saved 10% of your income, no matter how small or large and put it in a magic pot, how much money would be in it when you're 45?

Let them come up with a number - this could be a test of their optimism as well as practical math skills.

Let's say you put \$500 every month into a savings account. (\$500 is 10% of the \$5,000 per month that we're talking about.)

If you started putting that in at age 20, how much would you have at age 45, 25 years later? (\$150,000)

Wow, that's a big number. How long will that last if you stop working?" (We're still talking \$5000 per month) (30 months; or 2-1/2 years.)

That would buy a very nice vacation or it could buy some nice things but it's not enough to retire on - Now what?!

Well, I did say the pot is magic. So let's put that \$500 a month in a magic pot for 25 years? **Instead of \$150,000, you would have \$600,000!**

Now, how long will that last you? (122 months, or 10 years.) Much better!

Time for dramatic pause. This is over a half a million dollars in their hands!

Can you stop working now? Perhaps you only need to work part time, or if you and your spouse could put more money in during the first 25 years, it might last longer than 10 years.

And now for the punch line:

There's even more magic! What if that \$600,000 in the pot would grow \$60,000 each year all by itself? Now, how long would it last? **(Forever!!)** "The magic pot makes as much money as you do working full time - why would you need to work anymore?"

The more money you put in the pot, the faster it multiplies. Think of a snowball that you roll to make a snowman. The first few rolls gain only a little snow, then, when the snowball is bigger, each roll adds a lot more snow.

You can do this, it isn't make-believe! The millionaires and billionaires have figured out how to grow their magic pots. They have their money make more money. (This happens even while you sleep) You only have to do two things: Keep feeding it and try not to take any out until it's big enough to produce as much as you would make at work. (some call this "critical mass")

What is this "magic" called? It's called "Compound Interest". It's because of compound interest that banks make so much money and it's the reason rich people get richer.

Investments are discussed in the chapter "Portfolio". Fortunately there are many good resources about managing and investing money. It is never too early to grasp the concept that money can grow on its own.

The above numbers assume a very decent growth rate of just under 10%. Over the long term this is equivalent to the rate of return of the stock market. Investing strategies are a huge and potentially complicated endeavor. The main thing is to get in the game. It's very important to invest 10% of your money (also called "paying yourself first") and to watch your money grow. Think of how big the magic pot would be if a married couple lived off one income and invested the other income? Note that inflation should equal out: The 10% you put in every month will grow due to inflation which should be equivalent to the inflated pricing you'll need once the pot hits critical mass.