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JIM: Do you have children where money just seems to flow through their fingers? Well, you'll want to tune in to today's program. We have Dr. John Whitcomb who's authored a book that teaches parents how to teach their kids how to be responsible about money. Dr. Whitcomb first had his own challenges with his own kids and discovered some techniques that have really made his kids now very responsible adults, but they became responsible about money at a very early age. He's written a book and he provides a web site with a lot of tools that parents can use to teach their kids some basics about understanding the value of money.

Welcome, Dr. Whitcomb

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DR. WHITCOMB: Hi there.

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JIM: Hey, I'm so glad and so looking forward to visiting with you. I know we've attempted to track you down for a little while and just try to find you, but I know one of your past associates at work told me about this book that you wrote, helping teens get an understanding of money, and we see so many teens today, they don't even know what a checkbook is. They're used to using mom and dad's credit cards. They have no consequence. They have no understanding, and boy, they're not prepared for life, and what shows that is we new have the last studies I've heard have been $1.3 trillion in student loan debt, our credit card debt is ridiculous. It's a tough world out there.

Tell our listeners, you wrote this book, The Sink or Swim Money Program, and when it first came out it was Capitate Your Kids, right?

01:29

DR. WHITCOMB: Correct, that's the name, and that's sort of a joke on the idea of as opposed to decapitating them which you would want to do when they don't have a head on their shoulders.

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JIM: That is awesome. I was going to ask you about that, so it's helping them put a good head on their shoulders. You practice medicine, and I'm sure you've seen a lot of things in your day, but what motivated you to do this for teenagers?

01:49

DR. WHITCOMB: Well, you know, my kids, I put my kids on their money. In eighth grade I said to my kids, I think it's time to give you your money. My son asked me one day, you know, he needed new soccer shoes and we were going to buy new tennis shoes or whatever, and he had a pair of $290 tennis shoes and I just popped a cork, and out of my mouth came the word, we need to give you your money.

Well, you know, if you say that to a kid you know what they say? Oh, sure.

02:11

JIM: Awesome.

02:12

DR. WHITCOMB: He wanted to know what his money is. I said, well, you know, I'm the guy who's making decisions about what we're spending for you, and I shouldn't do that, it should be your money, you should make your own decisions. He said, that's good. He says, well how do we do that, and I thought, well first I've got to do is get out of the store about $290 tennis shoes, I'm not going to buy those, and I said, well we've got to go home and figure out how much I'm spending.

Well, that's kind of a last second kind of impulse and I'm hoping parents are a little smarter than that, and I advocate now, spend six months adding up your expenses for clothing, and then just, that's step one. First of all, step one is actually making the promise to your kids they get their own money, and when they do a good job they get the leftovers, but then step two is you say, okay, now let's figure out how much we're spending on you, and you just go to Office Depot or buy a little book or do it on a spreadsheet if you're doing it on a computer, make a little excel spreadsheet and keep track of expenses and teach your kids, here's what we're spending on money, page one. Here's what we're spending on clothing, page two. Here's what we're spending on sports, page three. Here's what we're spending on Boy Scouts, page four. Here's music lessons, page five. Whatever your kid is involved in, what you're paying, but you start with clothing.

I went home with David and I just simply added up all the clothes in his closet, how many T-shirts you got, how many shirts, how many pants, how many socks, how many shoes, how many jackets, and I sort of, we went back with him, we did it all in about two hours, and now I'm back to the store, I'm starting to add up the prices and I said okay, you've got so many dollars a month, I think it was like $80 a month because every year eighth graders grow four inches and they're a different size a year later, so they almost have to replace all their clothes for a year, so I gave David, I said here's your money, and he says great, and I gave him $80 a month and I went to the bank and I put $200 of my money in. I gave him $80. He comes back a month later and he says, Dad, my ATM card is broken. You know the old phrase, honey there must be money in the account, I still have checks?

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JIM: Yes.

04:01

DR. WHITCOMB: I said, what do you mean it's broken? He says, I put the card in there, the machine, and no money comes out. I said okay, time to call the bank. Call up the bank and his balance was like $12. I said David, what happened to all of our money? I said, I had $200, you had $80. He says, I don't know. I said, what did you do? I said, where did you go? He said, well I went to the bank here and I got $80, and I went to the bank here and I got $40, I went to the back there and got $50. I said, where did you go? He said, well.

Well, to make a long story short, he and his friends had been at McDonald having a high old time. You know, in the Bible they've got the book the prodigal son, and so I think this has been going on since time began. If you give kids money out without teaching them, they make mistakes, to what's the critical thing you do at that point in your life? Your child has now made a $280 mistake. He is your son or your daughter and they've made a terrible mistake. Your job is not to rescue them. Your job is to teach them that there are consequences, but you love them so you have to help them find the tools to get out of their deep mistake.

So I said to David, David, that's my money, you owe it back to me. I said, how are you going to pay me back? I don't know. I said, I'll tell you what, I need my lawn mowed, I'll pay you $20 every time you mow it. I didn't specify how frequently. Every three days that summer he mowed my lawn. I don't think it ever grew higher than about an eighth of an inch. I think I had a putting green, but he paid me back. That was eighth grade. He has never ever since then been in debt. He was so embarrassed and so angry and so annoyed with himself for making that mistake and not keeping track, he got $80 a month. Every month he got $80 more, but he spent $270 all in about three weeks because he didn't keep track and it was really my mistake. I hadn't taught him that he needs to keep track, keep a ledger, so what happened though is the dynamic was that he and I became partners in this journey together instead of my saying no, you can't have something, or yes you can.

I said, now what you want to do if you want to buy $280 tennis shoes, that's in your budget. Well, guess what, he bought $80 tennis shoes and when they wore out he didn't want to buy new tennis shoes at all. He was interested in buying a drum set. What do you do in Wisconsin if your tennis shoes get worn out and starting getting holes in them?

06:17

JIM: Duct tape?

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DR. WHITCOMB: Perfect, so I'm now sitting there in church with a son with duct tape around his shoes, going David, you've got to have one pair of shoes you can take you out in public. You can't be duct tape on your shoes, so each year I would write a contract, and our contract contained things like, okay this year you've got the prom coming up, here's what we think a prom will cost. It will probably cost you $150 to go to it and here's, we'll get one good pair of shoes that fits you and you have to have one jacket, and each year we would write a little agreement, one page long, and so he knows his expenses were and he basically, and each year we would add on new expenses, we'd add on soccer, what it costs to go to soccer, we'd add on all the different clubs and sports and music and hobbies and everything he had, Christmas time we could fudge things because if you want to do something special we could give him something special and to bend the budget a little bit at Christmas, but he took over and understood it perfectly.

Well, what happens when he gets to be age 15? You know, he's starting thinking about nothing but cars, so I said okay, David, we're going to let you drive and I will buy a car for you, that's my expense. I will buy you an old beat up car, and actually he ended up getting the family minivan, and I'll pay your basic insurance for you, but if you get a ticket and the price of your insurance goes up, that's going to be your expense, and the contract says you have to get oil changed at least twice a year, every 5000 miles, and he absolutely met all those expectations except for the one little accident he had that bent the, little dent in the fender, but he's the only kid in his class that ever had a major accident. He was so terrified of having his insurance double and him losing his car, and him having to spend an extra $1500 of extra insurance if his price of insurance went up.

Each year we gradually increased the size of his budget as he got older and needed more expenses, so then when he went to college and had a $25,000 budget he had to handle, it wasn't a problem for him. He took that, he could keep it in his account, I could be confident he wasn't spending it on beer and pizza, and so that's what kids do. If you give them a step-wise, one step at a time, where they learn a little bit but they're incentivized to be frugal. You've created a system where they have a fixed universe of money. If they do a good job, they get the leftovers.

08:31

JIM: Now, I've got a lot more questions for you. It's time for us to take a quick break.

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DR. WHITCOMB: Okay.

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JIM: When we come back we'll continue to visit with Dr. John Whitcomb who talked about putting a head on your kid's shoulders with his book, Capitate Your Kids, which now you might find it under the Sink or Swim for your kids, but when we come back we'll talk about some of the tools that you've made available so other parents hopefully can duplicate some of the success you had with your son David, so please stay tuned.

[BREAK]

10:01

JIM: Welcome back as we continue to visit with Dr. John Whitcomb, author of the book, Capitate Your Kids, and the Sink or Swim for your kids program. You designed that really for late in grade school, maybe early high school is about the time, or do you have families that have taken advantage of that at a much earlier age?

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DR. WHITCOMB: I've had families take it all different ages, and every family can tell for themselves, start it when their kids are getting antsy and want some more independence. They're starting to be a little rebellious, but I had one family who said to me their kids were in college and they said, well how do you capitate your kids in college, and I said, well expenses are coming up. One of our daughters is getting married, and I said, well why don't you tell her what you expect from her wedding, and they said okay, we can afford $5000, that's all we can afford, so I said, well tell her that and just make an agreement that says, honey, for both of you kids we've got $5000 saved up for your wedding. Well, a year later I was at the wedding with her and I got to dance with the bride, and she says so me, Dr. Whitcomb, thanks for the $3000. I said, what do you mean? She said, we did the whole wedding for $2000. Once you create the expectation, your kids will undercut because they get the leftovers.

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JIM: Yes, and that's -

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DR. WHITCOMB: And that was the key. She had gotten her own flowers, she got her own friend who did the photography, she got her, you know, so that's the key thing is you have to teach your kids to be frugal by creating the dynamic in which they benefit by being frugal.

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JIM: You know, I've got to share a story, Dr. Whitcomb. We had the person that referred me to you or helped me become aware, and what's amazing we were talking just before the program, here you live about seven miles from my office. I didn't even know you were in my neighborhood, but she told the story, she had a daughter and they put her on that budget just like you talked about, and she blew the money on some foolish things and program was coming up, or homecoming, one of those dances and her daughter is like, well I need a dress for this, it was a formal dance, and she had blown all her money, and she was in tears, pleading, please make it up for me, and they stood their ground and they said, okay, what money you have, you had plenty of money, I'm sorry you made that mistake. You might need to figure something out. Well, that daughter ended up going to Goodwill, picked up a beautiful dress for about three and a half dollars, and it was on the rack for about $10 and she had to negotiate a little bit because all she had was three and a half, and was able to talk them into getting her a dress so she could go with a formal dress. You don't have to buy the designer stuff off the rack, there's a lot of other opportunities to still get the same result. You might just be -

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DR. WHITCOMB: Her parents did that exactly right. They didn't bend, they didn't rescue her, but they said we love you and we want you to win, and here's your contract for you and here's the consequences, so she knew that she had screwed up, but they helped her by getting her over to Goodwill.

12:41

JIM: You know, and the thing is with a lot of kids today there's so much of that keeping up with the Joneses and living in that image, and what's sad is ninety percent of the kids are living on that image on typically other people's money. I see the state as a financial planner, I see the financial state of a lot of parents these days and for some reason they feel like they're obligated to make sure their kids have the best of everything, they're in every club, they're in every program, and while we're trying to do what's best for the kids, we're actually, it seems like we're hurting them.

13:18

DR. WHITCOMB: And see, actually, having those kids in all those programs may be fine, but when the parent is handling the money and writing the checkbook, then it's the parents making the decision, whereas if you say to your kids, I want you in Boy Scouts and I want you to be playing soccer or football or lacrosse, and I want you to be in band because you love your clarinet or you love your drums or you love your whatever it is, let your kid handle it, make those decisions, because the kid says yes, I want to be in that.

Now, they'll get $40 a month and added to their contract so they can pay for their music lessons, fair enough, but let them pay the music lessons, and then the contract is if they stop music lessons then your deal is then you'll change their monthly deposit, but when they start handling it themselves, the same thing happens with you. Every month you've got your mortgage and your health insurance and your car payments and your house, your grocery bill and your vacation fund and your charitable giving and your savings for retirement, how do you learn to allocate all of those unless you start off in little tiny steps, so money is really a way of teaching kids what you value and what your values are, but their values are what they value and they have to have the same incentives we adults do, and that's how they learn.

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JIM: I know another point that you've paid is how you react to those kids. I know for myself, I'm guilty and I've really had to work on this, and my kids are adult children now. I still have to teach them and remind them, and they still want to do all the things and they want to be at all the parties, they want to be at all the weddings, they want to do this, they want to do that, they don't want to miss out on anything, and when I hear them making some of the same mistakes pore than once, I have a tendency to blow a cork, you know, but you've got some advice for that too, how you react and handle that.

15:00

DR. WHITCOMB: And the issue is it's their life and they've got their values, so kids today don't want to accumulate wealth. They want to accumulate experiences. They want to spend time with their friends. They want to have events they can remember, but having stuff in their house doesn't matter to them, what we thought, but they do worry about their future and they are worried about their retirement, so they need to accumulate wealth in IRAs and savings plans.

My idea of empowering kids is the kind of thing families can't intuitively do, but financial advisors who understand those things could well teach many children or many families how to, and I think many financial advisors would be well advised by saying we'll start a program where we'll teach kids this plan, and I've actually done it in a high school and I've done it in a church where I've put together sort of a curriculum for kids on how to go through a one-year program of developing their own budget, developing their own spending, developing their own checking accounts, and every single one of those kids comes out and I have heard back from them five and 10 years later how wonderfully they feel in control when they do that.

16:01

JIM: That's incredible. Now, let's talk a little bit about the tools that you have available, so if anybody listening today, I know you've authored this book and you said the first edition you published yourself, and then it was published again under a different title, so it was Capitate Your Kids, you might be able to find a couple of those out on, you said Amazon?

16:22

DR. WHITCOMB: That's on Amazon and been out of print, so you can find it on eBay actually, some folks are selling it on eBay too. The Sink or Swim money program, same thing, it's now out of print, but the folks want to look up the contracts they get the idea pretty simply from our radio show, and if they go to my web site www.CapitateYourKids.com, it's just my own web site, it's a little bit coarse but it's got the contracts in it so you can look up contracts, and if you go through each of the web pages you can kind of get the gist of how to put it together, how to write a contract for driving a car, how to put a contract for clothing or how to put a contract for what I call global contract where you cover everything besides clothing, but I recommend they start slow with that little simple idea of clothing and their kids will learn from that. In fact, they'll like it so much they'll say can we do everything else, and then your kids will be excited. They'll talk over money, they'll share ideas with you. You'll spend the rest of your life having a collaborative relationship instead of a combative relationship over money.

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JIM: That's incredible. Now, let me ask you another question, what about responsibilities and helping out around the house. I know you mentioned earlier that you had them pay back by doing some jobs. Did you incorporate into your contract certain responsibilities at the house, and this was like an allowance -

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DR. WHITCOMB: Oh, yes.

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JIM: - or how did you do that?

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DR. WHITCOMB: Our kids maintained that they had to wash their own diapers, but I've heard wonderful things from many different families, and there are just a bunch of ideas you can try. Some families say we expect you to cook dinner one night a week. You have to learn, because that teaches you how to cook, and others say you are responsible for laundry and we don't issue the money until A, your laundry is done and put away and folded and your bed is made, so every week we expect you to accomplish some chore, and some families pay for some of those things and say, okay, well part of our payment is we expect you to do them, but we also have some pay attached to it.

I'm not sure that pay is the right way to go, but that's what I heard families do. I think it is some expectations of what you're expected to do. Our kids saw that I loved to garden and I would take them out and help them have me garden, so they'd learn, but I also paid them to mow the lawn so David mowed the lawn and he would always get $20 to mow the lawn, he loved doing that, but they both got jobs outside the house too, they both got paying jobs outside the home. I wouldn't let them work more than 20 hours a week because I said your main job is getting good grades for high school, going to college.

18:37

JIM: Well, John, I've really appreciated this talk. It's so simple, it's so easy as far as the concept is concerned. I'm sure in practice a lot of us as parents have to kind of re-think things and really the key is is the follow through.

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DR. WHITCOMB: My research shows, just my off the cuff research, that about a third of families do something like this but it's really something that many more would benefit by, so I appreciate you having me on your show.

19:01

JIM: Absolutely. Well, thanks again for joining us, and again that web site is www.CapitateYourKids.com, right?

19:16

DR. WHITCOMB: Perfect.

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JIM: So again, thanks a lot.

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DR. WHITCOMB: Yes.

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JIM: I encourage everybody to reach out because Dr. Whitcomb came to me as a referral of a family that actually went through this and practiced it, had tremendous results, and suggested that we reach out and have them as a guest, and I appreciate you accepting. Thank you.

19:34

DR. WHITCOMB: You bet, thanks for having me.

19:35

JIM: Thanks for joining us this week, and tune in again next week as we explore another phase of the Real Wealth process, and remember if anything you heard in today's show you'd like to get more information about, contact your Real Wealth advisor. Also if you feel that any of this information would be helpful to a friend or family member, just click the Forward To A Friend button.