Bank of Dad

If you have any concerns about leaving children with a large estate, you may find today's instruction very interesting...

My best friend, Joe, has a plan . And it's a good one. I've advised him on a ton of things – how to structure his business, how to plan his estate, how to protect his family from the unexpected, how to manage his assets.

But I learned an important lesson from Joe. It's proving helpful with my own kids.

Maybe it could be helpful for you and your kids/grandkids/nieces or nephews.

Joe decided to set up accounts for his children at the local bank. My dad did the same thing.

In those days – the late 60's and early 70's interest was relatively high.

So every several months when we dropped in with my passbook, I saw a modest (or significant) increase in my "net worth". Because of that – I learned the value of deferring my use of money.

When I took my kids to the local bank a few years ago, the teller announced that the account paid ½ of 1%. – It's less now!

But my kids asked, "Why would we invest here? "Why not just spend it?"

I cringed! Of course, I did. I'd grown up with the stalwart believe that it was better to defer us of money since it would be worth more later – the law of compound interest.

Only… the thing is … it doesn't work so well at historically low interest rates.

In fact … my kids were learning all about "the real world". They figured out – in pretty short order -- that saving for the future didn't' pay off – at least not after taking inflation and time-value of money into consideration.

That's where Joe showed his true weight in gold. Joe told me about the "Bank of Dad".

At the "Bank of Dad", life is simple. When a kid invests there, she earns 1% interest per month. That's right – 12 per year. It's easy for them to remember and calculate. That's worth something right there! "Yup". Pretty cool. And "NO", you can't invest there ---unless you're Joe's kids. Bank of Dad (BOD) is not an Equal Opportunity Financial Institution. Family Ties have their advantages.

Not all banks are as fair. “Neither is this dad,” Joe said -- if they need the other side of banking – the “dark side – the world of borrowing, things double. Borrowing from the Bank of Dad costs 2% per month. “24% per year? … That’s usury!” I cried. But again, this is not about Joe trying to bilk his kids out of their piggy bank contents. He’s teaching them in a very experiential way what the average adult American doesn’t understand, the time value of money.

I love the method for its simplicity. 1% on deposits and 2% loan rates puts the incentives clear enough for an 8 year-old.

It pays to defer spending.

It pays more, the longer you defer (compound interest).

It costs more to buy things you can’t afford.

And you feel the pain of that decision for longer – sometimes after the purchase is no longer valued.

Perhaps you have a child, grandchild, niece or nephew who would benefit from your own Bank of Dad.

If you try it, let me know how it works out.

Bill