

Perfectcents

A family's guide to teaching children to be money smart

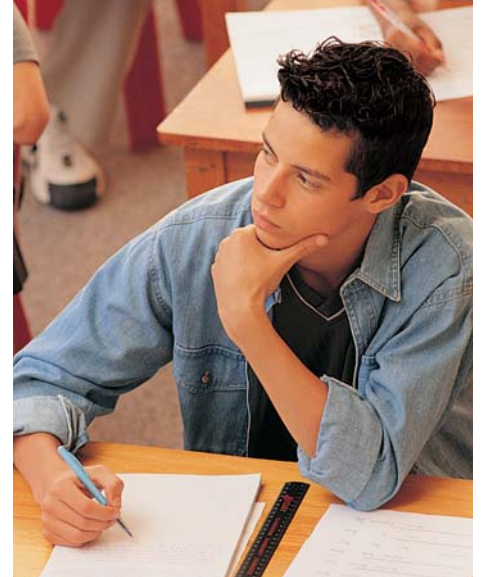
Number 8

What would life be like as a millionaire?

Ever dream about what it would be like to be a millionaire? Almost everybody does at one time or another. In their minds, they see chauffeurs, yachts, mansions, glamorous clothes, vacation homes on palm-treed islands. Lots of free time. No worries. If you want something, you buy it. And a servant carries it into the house for you. Money is no problem, right?

Let's see how much you really know about millionaires. Take **The Millionaire Quiz**. We'll dim the lights and cue the background music. *True or False?*

1. ___ Most millionaires inherited their money.
2. ___ Millionaires don't actually work. They have people who work for them.
3. ___ Millionaires shop in very exclusive stores, not where ordinary people in America shop.
4. ___ Millionaires drive impressive cars.
5. ___ Most millionaires make their money in glamorous ways – they're basketball or football players, rock musicians or movie stars.
6. ___ Millionaires have lots of credit cards.
7. ___ Most millionaires own their business.
8. ___ Many poor people become millionaires by winning the lottery.
9. ___ Most millionaires are college graduates.
10. ___ There's a good possibility that you can be a millionaire.



ANSWERS:

1. **FALSE.** Only 19% of millionaires were given any income or wealth from their families.
2. **Millionaires don't actually work.** **FALSE.** Most work more than 45 hours a week. That's more hours than most employees work in a week.
3. **Millionaires shop in very exclusive stores, not where ordinary people in America shop.** **FALSE.** 43% of millionaires have Sears charge cards.
4. **Millionaires drive impressive cars.** **FALSE.** Only 23% of millionaires drive a new car – that is, one manufactured in the current model year.
5. **Most millionaires make their money in glamorous ways.** **FALSE.** Most millionaires work in very ordinary jobs. They are paving contractors and owners of mobile-home parks, etc.
6. **Millionaires have lots of credit cards, so that they always have enough money to buy things on the spur of the moment.** **FALSE.** Many keep only one credit card, and most millionaires don't like paying interest on debt.
7. **Most millionaires own their business.** **TRUE.** Lots of people think that millionaires work for large well-known companies. Most millionaires consider themselves to be entrepreneurs (people who start their own business from scratch). This fact may explain why they work more hours than you would think – they are the decision makers for their companies.
8. **Many poor people become millionaires by winning the lottery.** **FALSE.** The chances of winning the lottery are 1 in 12 million to 120 million.¹ How likely are you to win the lottery? You have a better chance of being struck by lightning. Your chances of that are 1 in 9 million.
9. **Most millionaires are college graduates.** **TRUE.** 4 out of 5 millionaires are college graduates. 24% have earned masters or doctoral degrees. Another 14% have earned medical or law degrees. Most millionaires are well educated.
10. **There's a good possibility that you can be a millionaire.** **TRUE.** It wouldn't be hard to do either. Let's say you invest \$3,000 every year and earn just under 8% interest. You begin investing when you are 21. By the time you are 64, (retirement age) you will have saved a million dollars! If you save more, or if interest rates rise, you'll be a millionaire sooner. Want to have some fun playing with numbers? Go to www.themint.org. In the *Try It* section, you'll find a calculator to do the numbers for you.

¹ Odds for Powerball, January 23, 2003.



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Facts about millionaires



Did some of the answers in *The Millionaire Quiz* surprise you?

It turns out that millionaires may not live as extravagantly as we suppose. They shop at stores like Sears. They drive cars that may be a year or two old – nearly 10% of millionaires drive Fords! They pay off their credit cards to avoid debt.

They've earned their money rather than inheriting it, and they put in a full workweek just like most of America's families. They didn't win the lottery, and they believe education is the pathway to success. Most spend lots of money to educate their children.

Actually, all of this is good news for the rest of us. It means that if we get an education, work hard, save our money, and avoid debt, we, too, might become millionaires.

Wealth is not the same as income. Wealth is the money you accumulate.

The book, *The Millionaire Next Door*,² found that people who became millionaires got there because they worked hard, didn't give up, planned, and were careful with their money. How's that for the opposite of the TV image?

Another interesting fact that these authors found was that many people who live in expensive homes and drive luxury cars don't have much wealth – they live paycheck to paycheck because they spend all that they earn.

Here's the point the book makes: Wealth is not the same as income. You can earn a good income and blow it all on expensive things. Wealth is the money you accumulate. You save it and invest it. Many wealthy people

do not live in expensive homes, and their personal habits seem pretty normal. Why aren't millionaires more extravagant? Perhaps that's why they're millionaires. It's something to think about.

² Thomas J. Stanley, Ph.D. and William D. Danko, Ph.D., 1998.

One way to save – US savings bonds

Everybody's got to start someplace. How about those US Savings Bonds you got as a gift? Do you know what they are and how they work?

First of all, US Savings bonds were created to raise money for the American government during the World Wars I and II. People thought they were such a good idea that the bonds continue to be offered today. When you buy these bonds, you are really lending the government money. The government promises to return your money plus interest after an agreed-upon amount of time. Your money is safe with US Bonds because the US government guarantees that your money will be paid back to you with interest – no matter what.

Series EE bonds

These bonds are called **discount bonds**, because when you buy them, you pay only half their face value. So you could buy a \$100 bond for \$50. Each year the value of the bond grows – because you are earning interest on the amount you paid for the bond. Even after the bond reaches its face value, you can leave your money in the bond and let

it continue to grow. How long? The bond is good for 30 years from its purchase date. Bonds come in face values of \$50, \$75, \$100, \$200, \$500, \$1,000, \$5,000, and \$10,000.

Series I bonds

These bonds are not discount bonds – they are sold for their face amount. They, too, are sold at different values, just like Series EE, but I Bonds earn two kinds of interest:

- A *fixed rate* interest, the interest rate available at the time you purchase the bond. This rate remains the same for the life of the bond: 30 years.
- A *rate that rises and falls* with the Consumer Price Index for Urban Consumers. If inflation (the price of things in general) rises or falls, the rate of the bond rises or falls to keep pace with the economy. These rates change twice a year, in May and in October.

To learn lots about US Bonds, go to www.savingsbond.gov.



TWO SAVINGS TIPS

1. Regular savings can make you a millionaire even if your income is modest.
2. Because of compound interest, the earlier you start to save, the better.



Learn more about handling money at themint.org

This information is provided only to explain savings bonds as a savings vehicle. Northwestern Mutual does not endorse bonds or recommend that readers invest in US bonds or bonds of any kind.