LESSON 1

How to Really Be a Millionaire

LESSON DESCRIPTION AND BACKGROUND

This lesson is designed to get students interested in economics and personal finance. While financial planning may seem to be dull and time-consuming, finding out how to become a millionaire is a topic likely to stir up considerable interest. Of course the lesson does not pretend to offer a fail-safe procedure for achieving wealth. It emphasizes, instead, self-discipline, planning, and making sound choices—about getting a good education, spending wisely, saving early and often, and taking prudent risks. Nor does the lesson imply that the main goal in life is to become wealthy. Wealth, in itself, is no guarantee of happiness. But wealth can expand the range of choices available to people as they establish and pursue their life goals.

Lesson 1 correlates with national standards for economics and personal finance as shown in Tables 1-2 in the introductory section of the publication.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Compound interest
- Income
- Long-term investing
- Saving versus spending

OBJECTIVES

At the end of this lesson, the student will be able to:

- Describe the characteristics of millionaires.
- Explain how sound financial decisions can increase wealth and a person's standard of living.

TIME REQUIRED

One 45-minute class period

MATERIALS

- A transparency of **Visual 1.1** and **Visual 1.2**
- A copy for each student of **Theme 1 Introduction** from the *Student Workbook*
- A copy for each group of 3-4 students of **Exercise 1.1** from the *Student Workbook*
- An 8 1/2" x 11" sheet of paper, with a large "T" printed on one side and a large "F" printed on the other side, for each student group (see **Procedure 3**)
- An 8 1/2" x 11" sheet of paper with "Millionaire" printed on it

ADDITIONAL RESOURCES

To download visuals, find related lessons, correlations to state standards, interactives, and more visit http://fffl.councilforeconed.org/9-12/lesson1.

PROCEDURE

1. Tell the students that the purpose of this lesson is to show how they can make choices that will improve their lives. The lesson provides several tips about the accumulation of personal wealth. It introduces ideas that will be explored throughout the students' further study of economics and personal finance.

2. Distribute a copy of **Theme 1 Introduction** from the *Student Workbook*. Ask the students to read the section to become acquainted with the concepts presented in this theme.

3. Divide the class into groups of three or four students. To each group, distribute one sheet of paper with "T" printed on one side and "F" on the other, and one sheet with "Millionaire" written on it. Also distribute one copy of **Exercise 1.1** from the *Student Workbook* to each group.

4. Tell the students that they are going to participate in an activity called "The Millionaire Game". Read the following rules:

- Each group must choose a spokesperson.
- Each student in the group must tell the spokesperson what she or he thinks the right responses are for the statements shown on **Visual 1.1**.
- Whenever members of the group disagree about the right response, the majority opinion will prevail.
- The spokesperson must hold up the sheet of paper showing a "T" or "F" to indicate the group's decision for each statement. A "T" represents a statement that the group believes is true, and an "F" represents a statement that the group believes is false. Teams must respond to each statement.
- Each group gets five points for each correct answer. Each group loses five points for each incorrect answer.
- Each group may choose to "Millionaire" on any statement, up to a total of five statements. In that case, if the group answers correctly, it receives 10 points; if the group answers incorrectly, it loses 10 points from its current score. Groups should use this tactic on items they are most confident about answering correctly. The spokesperson must hold up the "Millionaire" sign when the group wants to use this option.
- A total of 15 statements will be read. A perfect score is 100 points. To earn this score, the students must answer all questions correctly and "Millionaire" correctly on five questions.
- The team with the most points wins, and its members are declared The Millionaires of Tomorrow.

5. Begin the game by displaying the first statement of **Visual 1.1** on an overhead projector. Keep all the other statements covered. Reveal the statements sequentially as the game progresses.

6. For each statement, ask the students to decide in their groups whether the statement is true or false. Then the spokesperson should hold up the "T" or "F" sign to show the group's decision to the class. The spokesperson should also hold up the "Millionaire" sign if the group chose this tactic for this item. Make sure the groups respond to the statements simultaneously so that some groups don't wait to see what other groups decide. Give the groups time to record their scores on **Exercise 1.1**. They may wish to keep a running total by adding their scores along the side of the score sheet.

7. You may wish to keep a running point total for each group on the board so that groups can see how they are performing relative to others. Groups may wish to use this information to make decisions on when to use the "Millionaire" option.

8. After the groups have responded to each statement, discuss the answers shown below. Explain that these answers represent basic principles for getting rich and living a more satisfying life.

a. Most millionaires are college graduates. ***(True. Four of five millionaires are college graduates. Eighteen percent have master's degrees, eight percent have law degrees, six percent have medical degrees, and six percent are Ph.D.s.)***

b. Most millionaires work fewer than 40 hours a week. ***(False. About 2/3 of millionaires work 45-55 hours a week.)***

c. More than half of all millionaires never inherited money. ***(True. Only 19 percent of millionaires received any income or wealth of any kind from a trust fund or an estate. Fewer than 10 percent of millionaires inherited 10 percent or more of their wealth.)***

d. Most millionaires attended private schools. ***(False. Most millionaires attended public schools. Fewer than 20 percent of female millionaires attended private schools.)***

e. Most millionaires drive expensive new cars. ***(False. Most millionaires spend under $30,000 for a car. Only 23 percent of millionaires drive a current-year [new model] car.)***

f. Most millionaires work in glamorous jobs, such as sports, entertainment, or high tech. ***(False. Most millionaires work in ordinary industries and jobs. They become wealthy because they make good uses of market opportunities.)***

g. Most millionaires work for very large public companies. ***(False. About three out of four millionaires are self-employed and consider themselves to be entrepreneurs. Most of the others are professionals, such as doctors, accountants, and lawyers.)***

h. Many poor people become millionaires by winning the lottery. ***(False. Few people get rich by luck. If you play the lottery, the chances of winning are worse than one in 12 million. The average person who plays the lottery every day would have to live about 33,000 years to win once. In contrast, you have a one in 1.9 million chance of being struck by lightning. How many people do you know that have been struck by lightning?)***

i. A college graduate earns almost double the annual income of a high school graduate. ***(True. In recent years the typical college graduate earned a median salary of $53,000, nearly double the median yearly income of the typical high school graduate [$32,552]. People with professional degrees earned a median income of $79,508, or nearly 240 percent more than the typical high school graduate. The typical worker without a high school degree earned $23,608 [2009 Bureau of Labor Statistics figures].)***

j. If a high school graduate invests the difference between his or her earnings and the earnings of a high school dropout, from age 18 until age 67, at 8 percent interest, the high school graduate would have $5,500,000 more than the high school dropout at age 67. ***(True. This is a dramatic illustration of how valuable a high school diploma is. Assume the difference in earnings between a high school graduate and a high school dropout is $8,000 at age 18. The illustration assumes that the difference increases by 1.5 percent each year and that the difference is invested at 8 percent interest each year.)***

k. Investors who buy and hold stocks for the long-term have better long-term stock returns than those who buy and sell stocks more frequently. ***(True. Studies show that individuals who buy and hold stock versus turning stock over more quickly have greater net gains. The costs related to hypertrading [buying and selling stock with great frequency] in terms of time and money can reduce the gains of even the luckiest investor.)***

l. Millionaires tend to avoid the stock market. ***(False. Millionaires know that over a long time period [starting in 1926 and including the Great Depression], the Standard & Poor's 500 Stock Index has increased at about a 10 percent compound annual rate of return, exceeding the return on most other investments. Of course, there is risk. The stock market has down years, and there is no guarantee of a 10 percent return in the future, especially in the short run. In contrast, the long-term return on risk-free U.S. government securities during the same period ranged from five to six percent. Another way of looking at this is that $1.00 invested in the S&P 500 in 1927 was worth about $3,286 by the end of 2007. One dollar invested in long-term government bonds during the same period was worth about $76 on December 31, 2007. For many investors, it probably paid to take the additional risk of buying stocks.)***

m. At age 18, you decide not to drink soda from the vending machine and save $1.50 a day. You invest this $1.50 a day at 8 percent interest until you are 67. At age 67, your savings

from not buying soda from the vending machine are almost $300,000. ***(True. Because of the power of compound interest, small savings can make a difference. It pays to live below your means. Find a balance between spending now and saving for the future.)***

n. If you save $2,000 a year from age 22 to age 65 at 8 percent interest, your savings will be over $700,000 at age 65. ***(True. Because of the power of compound interest, the earlier you begin saving, the better. Regular saving can make you a millionaire, even if your salary is modest.)***

o. Millionaires tend to be single rather than married. ***(False. Most millionaires are married and stay married. By contrast, divorce is expensive; it is potentially a gateway to poverty, especially for women. Financially speaking, divorce is something you want to avoid.)***

9. Ask the students to total up the final points for their groups; declare the winning team The Millionaires of Tomorrow.

CLOSURE

1. Ask the students if they can make any generalizations about the characteristics of a millionaire. ***(Answers may include the importance of education, hard work, saving, etc.)***

2. When the students have finished making these observations, display **Visual 1.2** and go over the principles. Take time to show how these rules are derived from the answers to the statements in the Millionaire Game.

ASSESSMENT

Have each student write a brief essay on "How to Really Become a Millionaire."

EXTENSION

Tell the students that the answers to The Millionaire Game are largely derived from three sources:

- Dwight R. Lee and Richard B. McKenzie. *Getting Rich in America.* Harper Business, 1999.
- Thomas J. Stanley and William D. Danko. *The Millionaire Next Door.* Pocket Books, 1996.
- Thomas J. Stanley. *The Millionaire Women Next Door.* Andrews McMeel, 2004.

You may wish to give the students an extra-credit project for which they would read and report on one of these books.

The Millionaire Game

Respond to each statement as "True" or "False." For each correct answer, you will receive five points. For each incorrect answer, you will lose five points. For any five statements, you may hold up the "Millionaire" sheet with your response. If your response is correct, you will receive 10 points. If your response is incorrect, you will lose 10 points.

a. Most millionaires are college graduates.

b. Most millionaires work fewer than 40 hours a week.

c. More than half of all millionaires never inherited money.

d. Most millionaires attended private schools.

e. Most millionaires drive expensive new cars.

f. Most millionaires work in glamorous jobs, such as sports, entertainment, or high tech.

g. Most millionaires work for very large public companies.

h. Many poor people become millionaires by winning the lottery.

i. A college graduate earns almost double the annual income of a high school graduate.

j. If a high school graduate invests the difference between his or her earnings and the earnings of a high school dropout, from age 18 until age 67, at 8 percent interest, the high school graduate would have over $5,500,000 more than the high school dropout at age 67.

k. Investors who buy and hold stocks for the long-term have better long-term stock returns than those who buy and sell stock more frequently.

l. Millionaires tend to avoid the stock market.

m. At age 18, you decide not to drink soda from the vending machine and save $1.50 a day. You invest this $1.50 a day at 8 percent interest until you are 67. At age 67, your savings from not buying soda from the vending machine are almost $300,000.

n. If you save $2,000 a year from age 22 to age 65 at 8 percent interest, your savings will be more than $700,000 at age 65.

o. Millionaires tend to be single rather than married.

Rules for Improving Your Financial Life

1. Get a good education.

2. Work long, hard, and smart.

3. Learn money-management skills.

4. Spend less than you could spend.

5. Save early and often.

6. Invest in common stocks for the long term.

7. Gather information before making decisions.