

Money 2000

University of Wisconsin-Extension

Family Living Programs

and Beyond

Who wants to be a millionaire?

If you dream of winning the lottery or striking it rich on a TV game show, you are not alone. A survey sponsored by the Consumer Federation of America found that many Americans believe they have a better chance of accumulating wealth by winning the lottery than by saving part of their income.

Having a million dollars symbolizes a level of wealth that promises financial security and independence. You might be surprised to find out that most of the 80 percent of American millionaires are self-made. They started out with ordinary incomes. Over a lifetime of spending less than they earn and making saving a priority, they were able to achieve financial independence.

In the best-selling book *The Millionaire Next Door*, authors Thomas Stanley and William Danko reveal **the key to wealth is living beneath your means**. Most millionaires don't live a life of luxury or big spending. They are FRUGAL! They buy their suits off the rack, drive older cars and shop in the same stores the rest of us do.

Here are some ideas for building your wealth:

■ **Spend less than you earn.** If you have a \$100,000 income and spend it all, you are not wealthy. You just have a lot of stuff. But if you make \$35,000 and live on only \$30,000, you are building wealth and financial security.

■ **Pay yourself first.** Instead of saving what's left after paying the bills, put money into savings first. Try to save at least 5 percent of your after-tax income. Consider having a regular amount deducted automatically from your paycheck and deposited into your checking or savings account. Then, have this amount transferred into a higher-interest money market account.

■ **Start saving NOW!** The sooner you begin saving, the greater the power of compound interest over time. See the table below for what you will have by investing \$50 a month earning 9 percent a year.

■ **Get rid of high interest debt.** Paying with a credit card is a great convenience, but financing that debt can be very costly. If — like three out of five credit card users — you carry a balance on your account, make the largest monthly payment you can, not just the minimum payment. With a \$2,000 balance on a card with an 18 percent interest rate, it would take 24 years and cost \$4,400 in interest to pay off the debt by making only minimum payments. With a \$50 a month payment, that debt is paid off in 5 years with \$1,077 in interest costs. Adding \$20 more — just \$5 a week — to the monthly payment, the time is reduced to 3 years and the interest charges drop to \$630.

NEWS

April-June 2000

"The key to wealth is living beneath your means."

—*The Millionaire Next Door*,
Thomas Stanley and William Danko



Earnings from investing: \$50 a month at 9% interest

Time	Savings	Interest	Total
10 years	\$6,000	\$3,676	\$9,676
20 years	\$12,000	\$21,394	\$33,394
30 years	\$18,000	\$73,537	\$91,537



“Beware of little expenses: A small leak will sink a great ship.”

—Benjamin Franklin

Does your budget leak?

Even a little leak can sink a big boat. All it takes is time.

Though they may not be obvious, your spending habits may have little leaks that are sinking your budget. Now is the time to plug those leaks. Don't wait until your budget goes under.

Hang on to your hard-earned money and plug spending leaks: Little purchases that have become habits:

For example, if you buy a candy bar and can of soda at work every day, your budget will leak \$300 in a year. Or if you eat out five times a week and spend just \$4.50 each time, your budget will leak \$1,170 in a year. Do you need another reason to quit smoking? A pack a day costs \$1,200 a year. Just chewing a pack of gum per day at work adds up to more than \$100 a year.

Unplanned spending: Perhaps, on impulse, you treat yourself to new clothes or a DVD player. Or you may spend more for something because you charged it instead of waiting until you had the cash. If you pay interest on that purchase, your spending leak gets still bigger. If you buy something just because it's on sale, you've just sprung another leak. Feeling damp yet?

Sales traps: These look like great, limited-time offers that sound too good to be true. There are many kinds of sales traps: hyped mail-order or on-line shopping, unneeded or overly expensive insurance, risky investments. In most cases, if it sounds too good to be true, it probably is.

Check your Social Security statement

If you are 25 or older and not receiving benefits, 3 months before your birthday you will receive an annual 4-page statement from the Social Security Administration. “Your Social Security Statement” is part of a national campaign to inform the country's 125 million workers about their future Social Security benefits.

Be sure to check your earnings history carefully, since any errors could affect your future benefits. If you have been in and out of the labor force, check that the dates you worked are correct.

The statement also includes estimates for survivor and disability benefits along with estimated retirement benefits. These estimates are based on your past earnings and the assumption that you will continue to earn at the same levels for the rest of your life. For younger

workers, this could result in a serious underestimate of your retirement benefits, since your earnings are likely to increase over time.

If you have worked less than the 10 years needed to qualify for benefits, you won't find a retirement benefits estimate. The statement will just say that you don't qualify for benefits.

Were you born after 1958? Then your normal retirement age is now 67 years — not 65. If you decide to retire at age 62, you will receive 70 percent of the full benefit.

For more information, visit your local Social Security office, or call the Social Security Administration toll-free:

(800) 772-1213

On the Internet:

<http://www.ssa.gov>



Teaching kids about money

Preschoolers: Play money-related games by having your preschoolers sort and stack your spare change. Don't be surprised if they prefer a nickel to a dime. An abstract concept about the coins' relative value is difficult at this age. Introduce the names of the coins. And when shopping, show how money is exchanged for other things.

School-agers: Allowances can teach children how to budget and prioritize their spending. Instead of setting the amount based on chores, fix the amount of the allowance on spending responsibilities. Make your children responsible for paying for their video games, movie tickets, snacks or Pokemon® stuff — not begging for a handout from you. Once they have to spend their money — not yours — you might be surprised how well they can control their spending.

Teens: Give older children a chance to learn about checking accounts and credit cards by balancing your checkbook and comparing receipts with your credit card statement. Once your children are old enough to have a job, help them learn the savings habit by requiring that they save a fixed amount from each paycheck. Set up ground rules about what you will pay for and what you expect them to pay for.



Card fees cost you, too

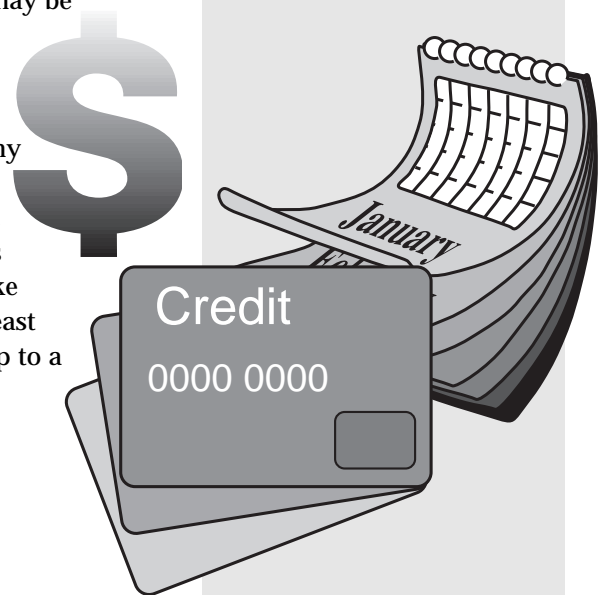
Checking the interest rate on your credit cards is important, but interest isn't the only cost to watch. Your card's annual fee and late fee may have changed since you opened your account.

Annual fee: Credit card companies often charge an annual fee, especially if the interest rate is low. Sometimes the annual fee is waived the first year, and individuals forget they are paying it. Check how much you pay and what you get for this fee. If you pay off your credit card balance each month, you don't need a low interest rate. Instead, look for a card with no annual fee.

Late fee: Many credit card companies charge a fee if your payment is late. This fee is over and above the interest you pay. Check for when a payment is considered late, and what late fees are charged. A few years ago, late fees

ranged from \$5 to \$10 and were typically charged only if the payment was 5 to 10 days late. Today, late fees are becoming an increasing source of revenue for credit card companies. Often the fee is \$25 to \$29, and may be charged if the payment is only 1 day late.

Penalty rate: After one or two late payments, many card companies will increase your interest rate. Many banks won't lift this penalty rate until you make on-time payments for at least 6 months, or sometimes up to a year.



Organize your family records

These University of Wisconsin-Extension publications can help you organize family records and family accounts:

Our Family Records B2369

Need your work history for an interview or retirement planning? Keep tabs on important personal and financial records for yourself, and for others who may have to handle your affairs if you can't. This booklet provides quick references in case of emergency, and record keeping guidelines for financial planning, including marital property in Wisconsin and more.

Our Family Account Book B2372

Tracking day-to-day income, expenses and savings is the first step to success-

fully managing your finances. You can use this account book to see where your money goes, estimate upcoming expenses, and plan a budget that will help you meet your goals.

These and other UW-Extension publications such as *Money 2000 and Beyond* are available from your county UW-Extension office, or call toll-free:

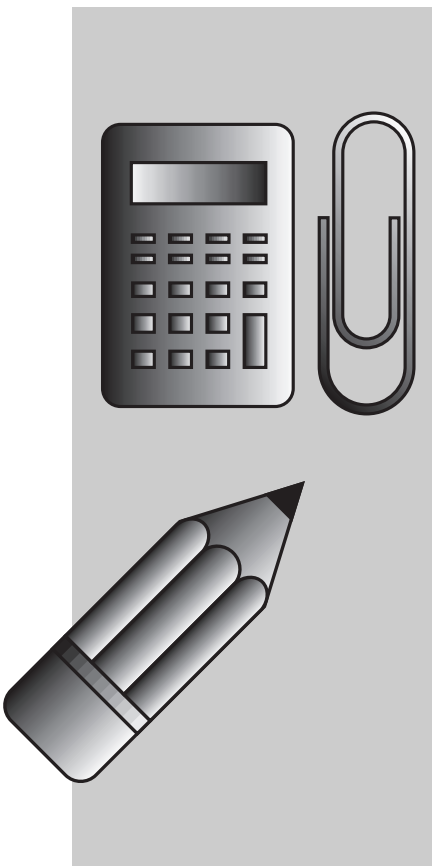
(877) WIS-PUBS

Web site — If you do not have Internet access, try your local library.

Money 2000 & Beyond, UW-Extension Cooperative Extension:

<http://www.uwex.edu/ces/money2000>

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How are you doing on your savings goal?

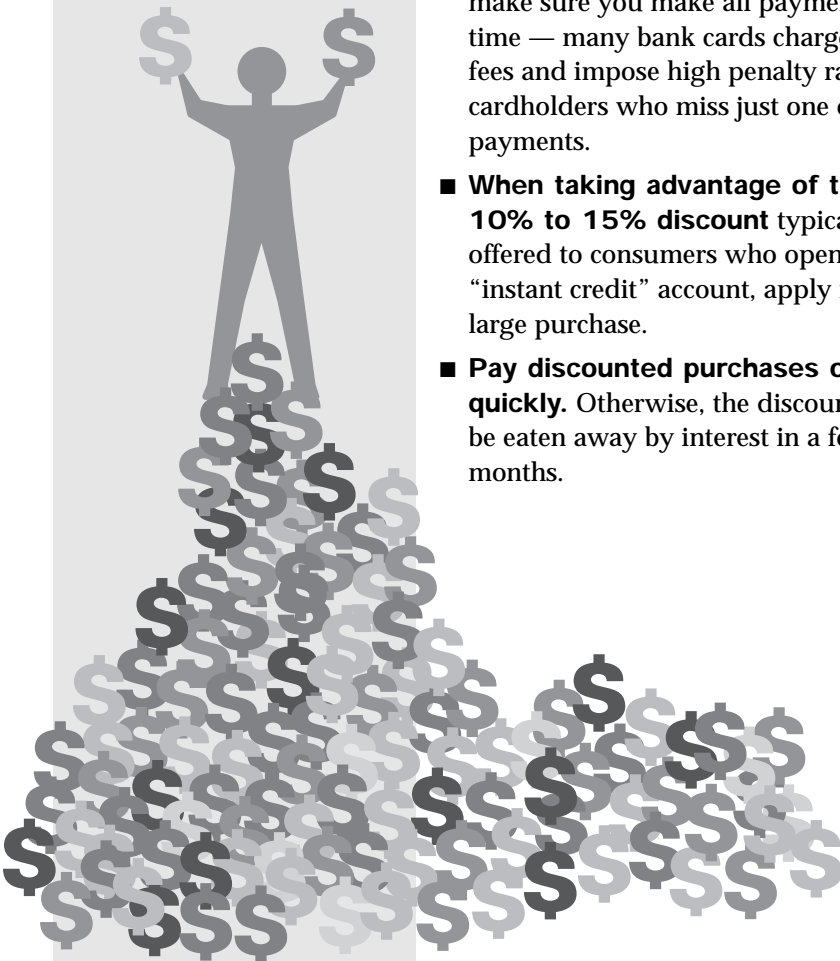
Local resources to help you stay on track

Retail credit card tips

Salespeople are trained to push retail credit cards with tempting offers of “instant credit” and immediate 10 to 15 percent discounts without any mention of interest rates and other key terms.

If you decide to sign up for department store or other retail credit cards, Consumer Action offers the following tips:

- **Ask about the interest rate** before signing up for a retail credit card. If the rate is not disclosed on the application, call the financial institution issuing the card. Don't rely on store salespeople for this information.
- **If you have a lower rate bank card** and know that you won't pay off your purchase immediately, **use that instead of your retail card.** But make sure you make all payments on time — many bank cards charge late fees and impose high penalty rates for cardholders who miss just one or two payments.
- **When taking advantage of the 10% to 15% discount** typically offered to consumers who open an “instant credit” account, apply it to a large purchase.
- **Pay discounted purchases off quickly.** Otherwise, the discount will be eaten away by interest in a few months.
- **If you buy items on sale** and then carry the cost on a card, the interest can quickly wipe out the savings from the lower sale price.
- **If you cannot qualify for a bank card,** you may find it easier to obtain credit from a retailer. But some accounts offered to people with no credit history charge even higher interest rates.
- **Watch out for “0% financing” offers.** While no interest is charged before a certain date, the entire balance must be paid before that time or else interest will be added to the balance on the cut-off date — retroactive to the time of purchase. A recent advertisement for an electronics superstore offered a 12-month grace period on its card's 22.9% interest rate. If you charged \$1,000 worth of goods and made no payments until after the 12-month grace period, you would owe about \$1,230.
- **Pass up the credit life insurance** that promises to pay your account when you are unemployed, become disabled, or die. Many insurance experts believe this optional add-on service is unnecessary. It is also one of the most expensive forms of insurance protection, at an average cost of 60 cents for each \$100 of your balance. The premiums are billed automatically to your card each month, adding to your statement balance.



Source: Consumer Action, www.consumer-action.org