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INVESTIGATE: Mystery of the $8 Million Janitor

### This activity is based on a CNBC article published February 6, 2015, after Ron Read, janitor, passed away and left millions to a local hospital and library. The article begins with this summary:

*Part-time janitors rarely bequeath $6 million to local causes, but Ron Read was no ordinary janitor. He was a secret millionaire. Known as an intensely private man who loved to chop wood and drive his second-hand Toyota Yaris around the Vermont town of Brattleboro, Read didn’t strike locals as [[1]](#footnote-1)the type of guy who had a lot of money to throw around. When the 92-year-old passed away in June, most Brattleboro residents were shocked to learn his estate donated $4.8 million to the local hospital and $1.2 million to the town’s Brooks Memorial Library.*

On the surface, it seems impossible. How could a lifelong janitor be a multi-millionaire? However, when you inspect it closer, it’s not as difficult as you might, *IF you live within your means and invest well*.

Let’s see if we can figure out how this janitor turned trash into treasure, and how you can do it too!

Now, let’s see how much money Read earned investing his money. To do that, we will use Bankrate.com’s [Return on Investment Calculator](http://www.bankrate.com/calculators/retirement/roi-calculator.aspx).

To make our calculations work, we need to make a few assumptions. First, we have to break up Ronald Read’s life into two parts:

Part I: His working life (when he had an income and was investing)

Part II: His retired life (when he was not contributing new money to his investments, just letting them grow).

### Part I: Read’s Working Life

1. Use the hints (in gray) to fill in the missing values. Then plug them into the [Return on Investment Calculator](http://www.bankrate.com/calculators/retirement/roi-calculator.aspx) to find Read’s total investment earnings.

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|  | **Missing Values** | **Hints** |
| **Years** |  | Read worked as a gas station attendant, and then a janitor, from 1945 to 1997 |
| **Rate of Return** | 12% | If you look at the [historical returns of the stock market](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html), it grew at an average rate of 12% from 1945 to 2014[[2]](#footnote-2) |
| **Initial Investment** |  | Let’s assume Read had no money to invest before he started working |
| **Additional Investment** |  | This is really tricky to calculate since we can’t know for sure, but let’s make some assumptions:   * The average worker’s annual salary in 1945 was $2,400, but Read was a gas station attendant so let’s assume his salary was half that. * Let’s assume he was able to save and invest 25% of his salary every year (a very high rate of savings)   Calculate his annual investment.[[3]](#footnote-3) |
| **Frequency** | Switch to “Per Year” | We are assuming he invested annually |
| **Expected Inflation Rate** | 3% | This is the general rate of inflation from the past 65 years. |
| **Tax Rate** |  | Since Read’s money was all invested, he would not be paying taxes on it[[4]](#footnote-4) |
| **Inflation Adjustment** | Check the Box | This will account for the fact that his money was worth more over time. $1 invested in 1945 is worth far more today |
| **Show Values After Inflation** | DO NOT Check the Box | *When the box IS NOT checked, it will show how much money he had in today’s dollars.*  (When the box IS checked, it will show how much money he would have in 1945 dollars, when he actually began investing) |

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1. When he retired, how much money did Read have (Investment totals on the calculator)?
2. How much money did Read personally invest (Invested capital on the calculator)?
3. What was Read’s Simple Interest (the sum of the yearly 12% return on his investment)?
4. What was Read’s Compound Interest (the sum of the yearly 12% return on the simple interest he already earned)?

### Part II: His Retired Life

1. Use the hints (in gray) to fill in the values for the [Return on Investment Calculator](http://www.bankrate.com/calculators/retirement/roi-calculator.aspx).

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|  | **Missing Values** | **Hints** |
| **Years** |  | Read retired in 1997 and he died in 2014 |
| **Rate of Return** | 12% | If you look at the [historical returns of the stock market](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html), it grew at an average rate of 12% from 1945 to 2014 |
| **Initial Investment** |  | For the “initial investment,” use the total that Read earned from 1945 to 1997. |
| **Additional Investment** |  | At this point, Read is retired. He is not earning a salary so we will assume he is not making any more annual investments[[5]](#footnote-5) |
| **Frequency** | Switch to “Per Year” | This doesn’t really matter, as he’s not contributing anything new, but we’ll switch for consistency with the previous round |
| **Expected Inflation Rate** | 3% | This is the general rate of inflation from the past 65 years. |
| **Tax Rate** |  | Since Read’s money was all invested, he would not be paying taxes on it |
| **Inflation Adjustment** | Check the Box | This will account for the fact that his money was worth more over time. $1 invested in 1945 is worth far more today |
| **Show Values After Inflation** | DO NOT Check the Box | *When the box IS NOT checked, it will show how much money he had in today’s dollars.*  (When the box IS checked, it will show how much money he would have in 1997 dollars, when he retired) |

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1. When he died, how much money did Read have (Investment totals on the calculator)?
2. How much money did Read personally invest (Invested capital on the calculator)?
3. What was Read’s Simple Interest (the sum of the yearly 12% return on his investment)?
4. What was Read’s Compound Interest (the sum of the yearly 12% return on the simple interest he already earned)?
5. Which of the three components -- Invested capital, Simple interest, Compound interest -- contributed the largest portion of Read’s investment total?
6. Looking at the total value of Read’s fund, what percentage of it came from money he contributed himself -- his *original Invested Capita*
7. Again looking at his Investment Total, what percentage of it came from Interest?
8. What conclusions can you draw about the power of interest?

BONUS: Did you love this story of the $8 Million Janitor? Here's a lovely [video](https://www.youtube.com/watch?v=cgftkyLr1Cc) (4 mins) featuring some of his friends reflecting back on his lifestyle and very generous gift. Thanks to NGPF Fellow, Jodie Holmquist, for passing the video our way.

1. [↑](#footnote-ref-1)
2. *The stock market rose and fell significantly through the period of 1945 to 2014. For the simplicity of our calculations, we’re going to use the average return of investments over that time period (12%) if you were invested in the market the entire time and did not withdraw money* [↑](#footnote-ref-2)
3. *We’re assuming Read invests this much in 1945. He will contribute that same amount every year afterwards, after adjusting for inflation. For example, his 1997 investment will not be $300. His 1997 investment would be the 1997 equivalent of what $300 was worth in 1945 ($2,673.03)* [↑](#footnote-ref-3)
4. *Technically, Read paid taxes on the* [*dividends*](http://money.cnn.com/retirement/guide/investing_stocks.moneymag/index3.htm) *his stocks paid out. However, we are going to assume he* [*reinvested all those dividends*](http://www.investopedia.com/articles/02/011602.asp) *and ignore the taxes he paid, as it would make this exercise excessively complicated.*  [↑](#footnote-ref-4)
5. *Technically, Read was likely reinvesting the dividends earned from his previous investments, which technically count as new investments. However, for the simplicity of this exercise we’ll assume he’s not making new investments.* [↑](#footnote-ref-5)