

# Millionaire Next Door



**Guide To  
Retirement**



## You May Not Think Of Your Family As Incredibly Wealthy, But America Is Full Of “Millionaires Next Door.”

When you think of a millionaire, you might think of extravagantly rich people with yachts and countless vacation houses. But in today’s reality, a millionaire is someone who has saved comfortably for retirement but likely doesn’t live extravagantly. Similarly, you may think of a financial advisor as a person only the superwealthy can afford. But in reality, they work with countless “millionaires next door” each year.

You’ve worked hard and saved for retirement, and now the question is how you’ll make it last for the rest of your life while maintaining the lifestyle you worked for. Transitioning from growing your wealth to spending it can be a big adjustment. The accumulation phase of your life is like climbing up a mountain—getting to the top is a major reward, just like hitting your ultimate savings goal! But now it’s time to switch to how you’re going to make those savings work best to sustain your retirement life. The same way you still have the whole journey down the mountain after reaching the summit, you have a whole new task of getting the most from your hard-earned savings once you reach your goal.

# What Is A Millionaire Next Door?

A formal description of a millionaire next door is a high-net-worth (HNW) individual who is defined as someone with at least \$1 million in liquid financial assets. Some examples of liquid assets include cash, stocks, bonds, Mutual Funds, ETFs, Money Market assets, and inventory. The number of HNW individuals in the US is 7.4 million as of the most recent survey in 2022—that's a lot!<sup>1</sup>

## 3 Questions Every Millionaire Next Door Needs To Ask Themselves:

1. How will I maintain my current lifestyle?
2. How can I enjoy myself early in retirement without worrying about running out of money later?
3. Could my tax burden increase in the next few years?

Today's retirees have built more wealth than any generation before them but must also contend with new threats:

### Inflation

Inflation has been high in past years, climbing to 40-year highs only a few years ago before starting to come down recently. Although inflation rates may fall, a positive inflation rate means prices still increase. Over time, inflation can diminish how far your nest egg can stretch by the time you need to dip into it, so leaving it uninvested could have more risks than you think.<sup>2,3</sup>

### Market Volatility

There is uncertainty around how stable the US economy and markets are. As the Federal Reserve raises interest rates to curb inflation, we could see more market volatility or recession. While some predict only mild downturns, it's not impossible that market turbulence could be in the future.<sup>4,5,6</sup>

- If we see a recession or a major market correction, how could it affect your retirement plans? If you have much of your wealth in retirement accounts or investments, you may be disproportionately affected by market turbulence.

### Taxes

Given the history of tax rates in the US, it's plausible to believe current rates are relatively low. If you have money saved in a taxdeferred retirement account, you may want to consider how much you will pay in tax once you start taking distributions. Starting in your 70s, you will have to take Required Minimum Distributions (RMDs), which could mean paying unknown income tax rates even if you don't want to withdraw from your accounts.<sup>7,8</sup>

# Where Will Your Income Come From?

Previously, it was typical to have worked for the same company your entire career, have a fully funded company pension, collect Social Security, retire at 65, and live for a shorter period than you'd expect now. Now, those expectations are different. Pensions are less common, the Social Security system may not be as stable as it was, and life expectancies are longer, meaning your financial strategy must last longer.<sup>9,10</sup>



## Income Vs. Assets

Earlier in your career, you might have been asset-poor but income-rich. If you've saved well, you've turned that high income into wealth. However, in retirement, your situation can be reversed: You've likely saved a substantial amount, have a healthy investment portfolio, and perhaps own a house that's appreciated in value over many years. Yet, you may still be nervous to retire and give up your regular, reliable paycheck because turning your assets into income to replace that paycheck is a different question. This is because there's a big difference between having high net worth and having access to an income stream. You can't take your assets to the grocery store to buy food, but you can take your income. So, how can you create income from your assets in retirement and help protect your wealth from inflation, market volatility, and taxes?

## Exploring Guaranteed Income<sup>11</sup>

There are many ways to turn your wealth into income streams, but not every option may be the best one for you, given your unique situation and goals. However, if you're a millionaire next door, you likely have a considerable amount in liquid assets; you don't have multiple vacation homes, aren't invested in high-profile venture capital or hedge funds, and keep a comparatively modest budget...but you happen to have saved well in a savings account or retirement investment accounts! For folks in this situation, applying those liquid assets to investments that supply guaranteed income can be a potentially fruitful solution. So, let's explore the guaranteed income option of annuities. An annuity is an insurance-based financial product that can pay out guaranteed income for a defined period of time or for a lifetime. An individual pays a lump sum and then receives either fixed or variable payments. It can be thought of as a reverse life insurance policy that protects you against outliving your money.



### THERE ARE SEVERAL POTENTIAL BENEFITS:

- **Reliable, regular income:** Certain types of annuities can pay out the same amount every month for life.
- **Protection from market corrections:** Some annuities offer some market exposure, while others do not and will pay out the same amount every month regardless of what happens with the market.
- **Protection from inflation:** Some annuities offer the potential for growth that helps combat the eroding effects of inflation in a low-interest rate environment.
- **Tax Minimization:** Depending on the annuity contract and your finances, an annuity can offer tax-deferred growth and partially untaxed distributions.

## Opportunities For Using Life Insurance In A Retirement Plan<sup>12,13</sup>

If you're an empty-nester, you may be wondering if you still need your life insurance policy. While you may not be as concerned about providing for your loved ones in the event of your untimely passing, there are still several uses for your life insurance policy. Some people stop paying the premiums or sell their policy, but there are other options.



### FOR RETIREES, THE THREE MAIN BENEFITS OF LIFE INSURANCE ARE:

1. A way to accumulate funds and protect them from market corrections.
2. Tax benefits, including tax-deferred growth and the ability to pass on an income tax-free benefit to your loved ones after your passing.
3. The option to take tax-deferred distributions as needed.

In terms of tax advantages, money taken from the cash value of a life insurance policy is not subject to taxes up to the "cost basis" or the amount paid into the policy through out-of-pocket premiums.

The cost basis doesn't include tax deferred investment gains or dividends. If you plan to pass on the entire value to your loved ones, you may be able to transfer a policy's death benefit income tax free to your beneficiaries, regardless of the amount.

Your loved ones will not have to pay tax at the unknown rates of the future, as they would on inherited retirement account distributions or other taxable assets.

The ins and outs of using life insurance can be complex, and there are many different kinds of policies. We can help you review your options and explain what role life insurance could play in your retirement plan.

# Your Journey Down The Mountain

While you may have worked hard to build up your nest egg, intelligently using it to provide yourself with income and financial stability for the rest of your life could be just as hard, if not harder! The most important thing to know is that you don't have to do it alone: A financial advisor can act as a guide on your journey down the mountain. We can help you create a comprehensive retirement plan that includes:

Income Planning

Investment Strategy

Wealth Protection

Tax Minimization

Estate Planning



## START THE CONVERSATION

You likely have many questions and concerns about retirement, and we're here to help. No matter what we see happen with the market, inflation, or taxes, we're here to help you prepare for the future. Come speak to the professionals at VestGen Wealth Partners by going to [GetRetiredStayRetired.com](https://www.getretiredstayretired.com) or calling **(847) 907-9600** to learn how we can help you get to where you want to go!

## Sources

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