

RETIREMENT PLANNING

Millionaire Next Door



Guide to
Retirement



You may not think of your family as incredibly wealthy, but America is full of “Millionaires Next Door.”

The word “millionaire” can bring to mind images of extravagant wealth, but many people with substantial assets live relatively modest lifestyles. In wealth-management research, the term “Millionaires Next Door” is used to describe high-net-worth individuals with between \$1 million and \$5 million in investable assets, excluding assets such as a primary residence.¹ For households that have spent decades saving and investing, reaching this level of wealth may be less about luxury than about preparing for retirement and other long-term financial goals.

As retirement approaches, the financial questions can begin to change. During your working years, the focus may have been on earning, saving and accumulating assets. In retirement, the challenge increasingly becomes how those assets can support your spending needs, goals and lifestyle over an uncertain period of time. Investment strategy, withdrawals, taxes, inflation, healthcare expenses and other considerations can all become part of that transition.

Think of the accumulation phase like climbing a mountain. Reaching the summit can represent an important milestone, but it is not the end of the journey. Retirement introduces a different set of decisions about how to use the wealth you have accumulated. A thoughtful retirement strategy can help you evaluate those decisions and determine how your financial resources may support the years ahead.²

What is a Millionaire Next Door?

A high-net-worth individual, or HNWI, is generally defined as someone with at least \$1 million in investable assets, excluding assets such as a primary residence, collectibles and certain personal property. As mentioned earlier, experts further describe individuals with between \$1 million and \$5 million in investable assets as "Millionaires Next Door." For many households, reaching this level of wealth may reflect decades of saving and investing rather than an extravagant lifestyle.

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 reduces purchasing power because rising prices mean each dollar buys less over time.³

For retirees and those approaching retirement, this can make it important to consider not only how much has been saved, but also how those assets may need to support spending over many years. Holding too much of a portfolio in assets that do not keep pace with inflation can also create purchasing-power risk.

Market Volatility

Financial markets naturally experience periods of gains and declines, and investment values can fluctuate significantly over time.

For retirees who are taking withdrawals from investment accounts, market declines can be especially important because selling investments after losses may leave fewer assets available to participate in a future recovery.⁴ A retirement strategy may therefore need to consider investment allocation, withdrawal needs, time horizon and tolerance for risk.

Taxes

Taxes can affect how much retirement income is ultimately available to spend. Distributions from traditional IRAs and many other tax-deferred retirement accounts are generally taxable when withdrawn, and many retirement accounts are also subject to Required Minimum Distribution rules.^{5,6} Because tax laws and individual circumstances can change over time, retirement planning may need to consider both current and future tax exposure.

Where Will Your Income Come From?

Retirement income can come from a variety of sources, including Social Security, employer-sponsored retirement plans, pensions, personal savings and investments. Traditional pensions remain available to some workers, but many people rely on a combination of retirement accounts and other assets to supplement Social Security.⁷ At the same time, retirement may need to be funded for many years; recent U.S. data show that someone who reaches age 65 can, on average, expect to live nearly another two decades.⁸ Social Security also faces long-term financing challenges under current projections, making it important to consider how multiple sources of income may work together over the course of retirement.⁹



Income vs. Assets

Earlier in your career, you might have been asset-poor but income-rich. If you've saved consistently, you may have converted some of that income into retirement savings, investments and other assets. In retirement, that situation can change: You may have accumulated substantial assets but no longer receive the regular paycheck you relied on during your working years.

That distinction matters because having a high net worth is different from having income available to meet regular expenses. Retirement planning often involves determining how Social Security, retirement accounts, investments and other resources can work together to support spending needs while accounting for factors such as longevity, inflation, market volatility and taxes.²

Exploring Guaranteed Income

There are many ways to create income from retirement assets, and the appropriate approach depends on an individual's circumstances, goals, risk tolerance and need for access to their money. One option is an annuity, which is a contract with an insurance company designed to provide retirement or other long-term benefits. An annuity may be funded with a lump-sum payment or a series of payments, and certain contracts can provide income for a specified period or for life.¹⁰

Annuities vary considerably in their features, costs, risks and potential benefits. Some provide fixed payments, while others may offer returns tied to investment performance or an index. Guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company, so the terms of the specific contract should be carefully considered.¹⁰



THERE ARE SEVERAL POTENTIAL BENEFITS:

- **Reliable, regular income:** Certain annuities can provide a predetermined stream of income for a specified period or for life.¹⁰
- **Different levels of market exposure:** Fixed annuities generally are not directly affected by market fluctuations, while variable and other types of annuities may provide varying degrees of market exposure and investment risk.¹¹
- **Potential protection against inflation:** Certain annuity contracts or optional features may provide payments or growth potential that can help address rising costs, although features and guarantees vary by contract.
- **Tax-deferred growth:** Earnings within an annuity generally grow tax-deferred until they are distributed. Depending on the type of annuity and how payments are structured, a portion of certain payments may represent a tax-free return of the owner's investment in the contract, while the remaining portion may be taxable.¹²

Opportunities for Using Life Insurance in a Retirement Plan

As you approach or enter retirement, your need for life insurance may change. Life insurance is primarily designed to provide financial support to beneficiaries after the insured person's death, but certain permanent life insurance policies can also build cash value that may become part of a broader financial plan.¹³ Whether an existing policy still makes sense can depend on factors such as your beneficiaries' needs, premiums, policy costs, cash value, estate-planning goals and other available assets.



FOR RETIREES, POTENTIAL USES OF LIFE INSURANCE MAY INCLUDE:

- Providing a death benefit: Life insurance can help provide financial support to beneficiaries after the insured person's death.¹³
- Building cash value: Certain permanent life insurance policies can accumulate cash value over time, although growth, guarantees, costs and investment risk vary by policy type.¹³
- Potential tax benefits: Life insurance death benefits are generally excluded from a beneficiary's federal taxable income, although exceptions can apply.¹⁴

Permanent life insurance policies may also allow policyholders to access accumulated cash value through withdrawals, loans or surrender of the policy. The tax treatment depends on how the policy is structured and how funds are accessed. If a policy is surrendered, amounts received above the policyholder's investment in the contract are generally taxable.¹⁵

Life insurance death benefits paid because of the insured person's death are generally not included in the beneficiary's gross income. However, exceptions can apply, including certain situations in which a policy has been transferred for valuable consideration, and interest earned on retained proceeds may be taxable.¹⁴

Life insurance products can vary significantly in their costs, guarantees, investment features and risks. Reviewing an existing policy in the context of your broader retirement and estate-planning goals can help determine what role, if any, it may continue to play in your financial strategy.¹³

Your Journey Down the Mountain

Building your retirement savings can take decades, but deciding how to use those assets throughout retirement brings a different set of financial decisions. Managing retirement income may involve balancing spending needs, investment risk, taxes, healthcare costs, protection needs and estate-planning goals over time.¹⁶

A financial professional can help you evaluate those considerations in the context of your broader financial picture and develop a strategy aligned with your goals, circumstances and tolerance for risk.¹⁷ Depending on your needs, a comprehensive retirement plan may include:

Income Planning

Investment Strategy

Healthcare Planning

Wealth Protection

Tax Planning

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 vestgen.com to learn how we can help you get to where you want to go!

Sources

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