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Characteristics of the Millionaires Next Door

The habits and values of wealthy Americans.

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Just how many millionaires does America have? By the latest estimation of Spectrem Group, a research firm studying affluent and high net worth investors, it has more than ever before. In 2015, the U.S. had 10.4 million households with assets of $1 million or greater, aside from their homes. That represents a 3% increase from 2014. Impressively, 1.2 million of those households were worth between $5 million and $25 million.[1]

How did these people become rich? Did they come from money? In most cases, the answer is no. The 2016 edition of U.S. Trust's *Insights on Wealth and Worth* survey shares characteristics of nearly 700 Americans with $3 million or more in investable assets. Seventy-seven percent of the survey respondents reported growing up in middle class or working class households. A slight majority (52%) said that the bulk of their wealth came from earned income; 32% credited investing.[2]

It appears most of these individuals benefited not from silver spoons in their mouths, but from taking a particular outlook on life and following sound financial principles. U.S. Trust asked these multi-millionaires to state the three values that were most emphasized to them by their parents. The top answers? Educational achievement, financial discipline, and the importance of working.[2]

Is education the first step toward wealth? There may be a strong correlation. Ninety percent of those polled in a recent BMO Private Bank millionaire survey said that they had earned college degrees. (The National Center for Education Statistics notes that in 2015, only 36% of Americans aged 25-29 were college graduates.)[3]

Interestingly, a lasting marriage may also help. Studies from Ohio State University and the National Bureau of Economic Research (NBER) both conclude that married people end up economically better off by the time they retire than singles who have never married. In fact, NBER finds that, on average, married people will have

ten times the assets of single people by the start of retirement. Divorce, on the other hand, often wrecks finances. The OSU study found that the average divorced person loses 77% of the wealth he or she had while married.[3]

Many of the multi-millionaires in the U.S. Trust study got off to an early start. On average, they began saving money at 14; held their first job at 15; and invested in equities by the time they were 25.[2]

Many of them have invested conventionally. Eighty-three percent of those polled by U.S. Trust credited buy-and-hold investment strategies for part of their wealth. Eighty-nine percent reported that equities and debt instruments had generated most of their portfolio gains.[2]

Many of these millionaires keep a close eye on taxes & risk. Fifty-five percent agreed with the statement that it is "more important to minimize the impact of taxes when making investment decisions than it is to pursue the highest possible returns regardless of the tax consequences." In a similar vein, 60% said that lessening their risk exposure is important, even if they end up with less yield as a consequence.[2]

"The three values that were most emphasized: Educational achievement, financial discipline, and the importance of working."

Are these people mostly entrepreneurs? No. The aforementioned Spectrem Group survey found that millionaires and multi-millionaires come from all kinds of career fields. The most commonly cited occupations? Manager (16%), professional (15%), and educator (13%).[4]

Here is one last detail that is certainly worth noting. According to Spectrem Group, 78% of millionaires turn to financial professionals for help managing their investments.[4]

How Can LTC Insurance Help You Protect Your Assets?

Plan to create a pool of healthcare dollars that you can use when the time comes.

How will you pay for long-term care? At the moment, you may not be able to answer that question – but long-term care insurance can provide an answer for you.
Why are baby boomers opting to make long-term care coverage an important part of their retirement strategies? The reasons to get an LTC policy at or after age 50 are very compelling.

Your premium payments buy you access to a large pool of money which can be used to pay for long-term care costs. By paying for LTC out of that pool of money, you can help to preserve your retirement savings and income.

The cost of assisted living or nursing home care alone could motivate you to pay for an LTC policy. Genworth Financial conducts a respected annual Cost of Care Survey to gauge the price of long-term care in the U.S. Here is some data from the latest edition:

*In 2016, the median monthly cost of a private room in a nursing home is $7,698. The median monthly cost of a semi-private room is $6,844, 2.27% greater than Genworth's 2015 estimate.
*How about the median monthly cost of an assisted living facility? That currently comes to $3,628. Thankfully, that has increased only 0.8% from last year.
*The median monthly cost of an in-home health aide (44 hours per week) is $3,861. Across the past five years, that median cost has risen 6.6%.[1]

When you multiply these monthly cost estimates, the math gets downright scary. Can you imagine taking $45-90K out of your retirement savings to pay for a year of these expenses? What if you have to do it for more than one year?

The Department of Health & Human Services estimates that if you are 65 today, you have about a 70% chance of needing some form of LTC during the balance of your life. About 20% of those who will require it will need LTC for at least five years. Today, the average woman in need of LTC needs it for 3.7 years, while the average man needs it for 2.2 years.[2]

Why procrastinate? The earlier you opt for LTC coverage, the cheaper the premiums. This is why many people consider purchasing it before they retire.

What it pays for. Some people think LTC coverage only pays for nursing home care. It can actually pay for a variety of nursing, social, and rehabilitative services at home and away from home, for people with a chronic illness or disability. For example, it can fund home health care, care in a group living facility, and adult daycare.[3]

Choosing a DBA. That stands for Daily Benefit Amount - the maximum amount that your LTC plan will pay per day for care in a nursing home facility. You can choose a Daily Benefit Amount when you pay for your LTC coverage, and you can also choose the length of time that you may receive the full DBA on a daily basis. The DBA typically ranges from a few dozen dollars to hundreds of dollars. Some LTC plans offer you "inflation protection" at enrollment. That means that every few years, you will have the chance to buy additional coverage and get compounding – so your pool of money can grow.

"The Medicare misconception: Medicare is not long-term care insurance."

The Medicare misconception. Medicare is not long-term care insurance. At most, it will pay for 100 days of nursing home care, and only if 1) you are getting skilled care, and 2) you go into the nursing home right after a hospital stay of at least 3 days. Medicare also covers limited home visits for skilled care, and some hospice services for the terminally ill. That's all.[4]

In some cases, Medicaid might help you pay for nursing home and assisted living care, but it is basically aid for those in dire financial need. Some nursing homes and assisted living facilities don't accept it, and, for Medicaid to pay for LTC in the first place, the care has to be proven to be "medically necessary" for the patient. Do you

really want to wait until you are nearly broke to try and find a way to fund long-term care? Of course not. LTC insurance provides a way to do it.[5]

Why not look into this? You may have heard that yearly premiums on LTC policies have increased recently. They have – as MarketWatch recently noted, annual premiums for a typical policy covering a 55-year-old couple can exceed $5,000. Those premiums are cheap, however, relative to the financial burden those without LTC policies may face in the future.[6]

Ask your insurance advisor or financial advisor about some of the LTC choices you can explore – while many Americans have life, health, and disability insurance, that is not the same thing as long-term care coverage.

2017 Retirement Plan Contributions

Minor inflation means small, but notable, changes for the new year.

Each October, the Internal Revenue Service announces changes to annual contribution limits for IRAs and workplace retirement plans. Are any of these limits rising for 2017?

Will IRA contribution limits go up? Unfortunately, no. Annual contributions for Roth and traditional IRAs remain capped at $5,500 for 2017, with an additional $1,000 catch-up contribution permitted for those 50 and older. This is the fifth consecutive year those limits have gone unchanged. The SIMPLE IRA contribution limit is the same in 2017 as well: $12,500 with a $3,000 catch-up permitted.[1,2]

There are some changes pertaining to IRAs. The limit on the employer contribution to a SEP-IRA rises $1,000 in 2017 to $54,000; this adjustment also applies for solo 401(k)s. The compensation limit applied to the savings calculation for SEP-IRAs and solo 401(k)s gets a $5,000 boost to $270,000 for 2017.[1]

Next year will bring an adjustment to IRA phase-out ranges. Your maximum 2017 contribution to a Roth IRA may be reduced if your modified adjusted gross income falls within these ranges, and prohibited if it exceeds them.[1]

*Single/head of household $118,000-133,000
($1,000 higher than 2016)
*Married couples $186,000-196,000
($2,000 higher than 2016)

You must participate in a high-deductible health plan to make HSA contributions.

If your MAGI falls within the applicable phase-out range below, you may claim a partial deduction for a traditional IRA contribution made in 2017. If it exceeds the top limit of the applicable phase-out range, you can't claim a deduction.[1]

*Single or head of household,
covered by workplace retirement plan $62,000-72,000 *($1,000 higher than 2016)*

*Married filing jointly,
spouse making IRA contribution
covered by workplace retirement plan $99,000-119,000 *($2,000 higher than 2016)*

*Married filing jointly,
spouse making IRA contribution *not*
covered by workplace retirement plan,
other spouse is covered by one $186,000-196,000 *($2,000 higher than 2016)*

*Married filing separately,
covered by workplace retirement plan $0-10,000 *(unchanged)*

Will you be able to put a little more into your 401(k), 403(b), or 457 plan next year? No. The maximum yearly contribution limit for these plans stays at $18,000 for 2017. (That limit also applies to the Thrift Savings Plan for federal workers.) The additional catch-up contribution limit for plan participants 50 and older remains at $6,000.[1]

Are annual contribution limits on Health Savings Accounts rising? Just slightly. In 2017, the yearly limit on deductible HSA contributions stays at $6,750 for family coverage and increases $50 to $3,400 for individuals with self-only coverage. You must participate in a high-deductible health plan to make HSA contributions. The annual minimum deductible for an HDHP remains at $1,300 for self-only coverage and $2,600 for family coverage in 2017. Next year, the upper limit for out-of-pocket expenses stays at $6,550 for self-only coverage and $13,100 for family coverage. HSAs are sometimes called "backdoor IRAs" because they can essentially function as retirement accounts for people 65 and older; at that point, withdrawals from them can be used for any purpose.[3,4]

Are you self-employed, with a defined benefits plan? The limit on the yearly benefit for those pension plans increases by $5,000 next year. The 2017 limit is set at $215,000.[1]

What Does Your Home Insurance Policy Cover?

Take a moment to see if you are adequately protected.

Not all home insurance policies are alike. Coverage amounts obviously vary, and so do coverage areas. Taking ten minutes to scrutinize what your policy does (and does not) cover is a wise idea.

"Most homeowner policies cover hurricane damage, but a hurricane frequently results in flooding."

Homeowner policies routinely provide tornado, windstorm, & hailstorm coverage. If a tornado, windstorm, or hailstorm damages your home or yard, the insurer will commonly pay out in response to your claim, unless your residence has somehow failed to qualify for such coverage.[1,2]

How about hurricanes & floods? Here, basic coverage may not be enough. Most homeowner policies cover hurricane damage, but a hurricane frequently results in flooding. A flood is not usually a covered peril in a standard home insurance policy.[2]

In areas with serious flood risks, mortgage lenders often require borrowers to obtain flood insurance. Nationally, about a fifth of flood insurance claims are filed in regions that have low or moderate flood risks. If you live by a normally calm creek, river, reservoir, bay, or beach, you must decide if flood insurance is worth purchasing. You should consider it even if a creek, river, or reservoir near you is dry most of the year – flash floods, for example, can wreak havoc in a desert community.[3]

How about earthquakes? If you live in quake country, you likely know that the standard homeowner policy will not cover earthquake damage. Just like those who consider an optional flood policy, you must conduct your own informal cost-benefit analysis: is the extra coverage worth the money?[3]

Many homeowners decide against buying hurricane, flood, and earthquake insurance. They see this supplemental coverage the same way they see long-term care insurance – a lot of money spent for something they may never need. Their decision may come to haunt them, however. One temblor, one storm, or one rising river may impact them more than they could imagine.

How about fire & lightning? The answer is yes – homeowner policies commonly provide coverage against lightning damage as well as damage from fire and smoke. Explosions from gas leaks may also be covered, at least under most circumstances.[1]

What about sewer problems? Damage caused by leaking or ruptured septic tanks, sump pumps, and sewer systems is usually not covered in a home insurance policy. You can often attach a rider to a policy to gain that kind of protection.[3]

How about theft? Coverage against larceny – the theft of real property – is common in any homeowner policy. Limits are set on coverage of art, antiques, collectibles, and jewelry, but they can be raised. They may need to be raised because, in some instances, the payout may fall short of the full value of what was stolen. All homeowners would do well to keep a home inventory checklist of valuable items on their property, complete with some kind of visual record.[1]

You may want to add some business coverage if you work at home. That coverage should be tailored according to the nature of the work you perform, and it may need to include inventory or liability coverage. An umbrella liability policy could also come in handy, especially if you have clients coming over to your home or you provide goods and services to others as a function of your work.

What events will home insurance not protect you against? You will be hard-pressed to find any homeowner policy that offers protection against terrorist acts, acts of warfare, nuclear accidents, or movements of the earth (earthquakes, mudslides, landslides, and sinkholes). Some things are very difficult or nearly impossible to imagine, predict, or guard against.

Renters need insurance, too. If you rent rather than own, you can still face many of the risks mentioned in this article. If you lack renter's insurance, think about getting a policy – it may be cheaper than you assume.

If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us at 704-552-5200.

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