**How to Retire a Millionaire**

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**ABSTRACT**

This paper addresses the issue of how to retire a millionaire. An analysis of monthly and annual funding requirements is completed. The million-dollar goal is attainable through systematic savings and investing. Even individuals with modest incomes can achieve this goal. This paper also identifies the appropriate funding vehicles and optimal time to begin retirement planning.

**INTroduction**

If asked, most people would say they would like to retire as a millionaire, yet most people do not. Individuals either do not have retirement goals or they fail to fund those goals. Much of this can be overcome by adequate education and planning. One of the issues is how much money do you need in retirement. The average income in the United States in 2022 was $77,643. (Statista, 2024). To replace that income at an earnings rate of ten percent with a three percent inflation rate, you would need to have accumulated a fund of $1,109,186. So, the average American will need to accumulate more than one million dollars to replace their income. Basically, everyone needs to be a millionaire in retirement. Either through pensions, 401K and 403B balances, home equity or other savings, you need to be a millionaire.

The problem is that most Americans are nowhere near that level. The median net worth of Americans ages 60 – 69 is $384,849 (MoneyGuy.com, 2024). This means that there are many people who will have below average retirement income since their asset base is substantially less than a million dollars

**Purpose of Study**

The purpose of this study is to examine the mechanics of the retirement funding requirement at various ages and the appropriate funding vehicles which can be used. This study also examines the optimal age to begin retirement funding.

**Literature Review**

In addressing this problem and issue, which is a retirement planning issue, the question must be asked can individuals retire a millionaire? Is it possible? Can it be done? Knute Iwaszko and Brian O’Connell answer that question in their book “The 401 (k) millionaire: how I started with nothing and made a million - and you can, too”. Iwaszko & O’Connell (2009). In their book, they identify the keys to becoming a 401K millionaire. Through diligence, systematic savings, and perseverance you can become a millionaire.

Whether you have 5, 10, 15 or 20 years to retire you can develop a systematic plan for retiring a millionaire. Armstong & Brown (2009). An original analysis of the BLS Consumer Expenditure Survey shows that almost 40% of U.S. households spent more than their income in 1990. Multivariate logistic regression indicates that income level is the most important factor related to whether a household overspends. More educated consumers are more likely to overspend than are less educated consumers. Bae, Hanna, & Lindamood (1993). Overspending has a direct impact on achieving the goal of retiring as a millionaire. Baker, Nofsinger, and Spieler (2020) outline how traditional investments such as stocks, bonds, and cd’s can be used to create wealth.

Bender, Choi, Dyson & Robertson surveyed 2,484 U.S. individuals with at least $1 million of investable assets about how well leading academic theories describe their financial beliefs and personal investment decisions. They found that the wealthy’s beliefs about financial markets and the economy are surprisingly similar to those of the average U.S. household, but the wealthy are less driven by discomfort with the market, financial constraints, and labor income considerations. Portfolio equity share is most affected by professional advice, time until retirement, personal experiences, rare disaster risk, and health risk. Bender, Choi, Dyson, & Robertson (2022).

The term millionaire was first used in a 1776 newspaper obituary for Pierre Lorillard I. Samuel (2020).

There were only three millionaires in 1861, according to one source, but that was about to change dramatically over the next century. There were about 100,000 millionaires in the United States in 1961 (versus 27,000 in 1953), with 3.5 million of the 100 million households in the country holding $1 million or more in assets by the late 1990s.

Thomas Stanley’s and William Danko’s 1996 bestseller The Millionaire Next Door served as a tipping point in the history of the world. The book defused many of the mythologies surrounding the American rich, showing them not to be private school educated snobs having high tea every afternoon but ordinary in every way except for their high net worth. With millionaires normalized and seeing wealth [envy](https://www.psychologytoday.com/us/basics/jealousy) at an all-time-high, other authors jumped on the how-to-get-rich bandwagon even as the dot-com bubble popped. “Millionaire [mania](https://www.psychologytoday.com/us/basics/mania) has become the ‘Harry Potter’ of personal-finance publishing,” Newsweek reported in 2000, as a string of advice books showing how to achieve seven figures in net worth hit store shelves and online sites.

Thomas J. Stanley followed up his own bestseller with another, The Millionaire Mind, with The 401(k) Millionaire and 365 Ways to Become a Millionaire (Without Being Born One) also showing readers how to get to the number. Another, Who Wants to Be a Millionaire, was the literary version of the television show that was turning out to be a cultural phenomenon. (During one week in August 2000, the show finished second, third, and fourth in the Nielsen ratings, beaten only by Survivor, another show offering contestants the chance to win $1 million.)” Samuel (2020) p. 1

Since the Gilded Age, a million dollars has held a special resonance but with surging real estate values and stock market the million-dollar threshold is in many people’s reach. About four percent of American households were indeed millionaires at the beginning of the 21st century Samuel (2020). While inflation has eroded a substantial amount of the value of one million dollars over the years, people are still enamored with the achievement.

The fact was, however, that being a millionaire hardly conveyed extreme wealth, in part because of its ubiquity. There were in 2006 no less than 8.7 million millionaires in the world, according to a study from Merrill Lynch and Capgemini, their number nearly doubling in the past decade. Millionaires had become commonplace over the decades (“Somewhere along the line, having $1 million—like the ability to diagram sentences, do math in your head, and the dollar itself—became devalued,” observed Paul B. Brown of the Times in 2008) yet most people still saw the accomplishment as perhaps the definitive symbol of both success and [happiness](https://www.psychologytoday.com/us/basics/happiness). Inevitably, a new book was soon on the market—How to Be a Billionaire: Proven Strategies from the Titans of Wealth—evidence that the stakes had been raised now that millionaires were, so to speak, a dime a dozen. Samuel (2020) p. 1

Time-value-of-money analysis shows that one of the most critical factors in calculating future value is the number of periods. As the number of periods increases, future value increases holding other variables constant. If you have 40 years to accumulate one million dollars it is relatively easy to achieve that goal. If you have five years, well that is not so easy. However, time to goal has become an issue. How quickly you become a millionaire is now the focus.

Speed was definitely now of the essence, with Millionaire by 40 outdone by Millionaire by 26 outdone by How to Be a Teenage Millionaire outdone by Discovering the Millionaire in Every Child. (It was surprising that a book called How to Conceive a Millionaire had not yet been published.) With roughly 10 million millionaire households in the United States in June 2007 (just as the subprime mortgage crisis and subsequent recession were kicking in, reducing that number) there were more people with more money than any other time or place in history. Samuel (2020) p. 1.

Retirement is no longer a concern solely for the second half of life. The idea that we one day will retire is present to all adults and it is even urged on adolescents. Ekerdt (2004). At birth, a retirement obligation is created. A newborn will one day retire, and it is best to start funding the retirement obligation at birth. Someone will pay for this obligation. Either the individual, children of the retiree, or society. This can be done with a $50,000 variable universal life policy on the life of the child at birth. Earnings during adolescents can be used to overfund the variable universal life policy. This creates a pool of money to be used when the child turns 18 or for retirement.

There are many decisions that Americans have to make about retirement before, at, and after retirement. Americans must decide when to start saving for retirement, how much to save, how to invest those savings, when to retire, when to claim social security, and how to take required minimum distributions from 401(k) plans or Individual Retirement Accounts. Different things can go wrong at each of these decisions for different reasons. Many Americans, for various reasons, including insufficient energy, money, motivation, time, and understanding, do no retirement planning. Some Americans do some retirement planning, yet worry they are doing insufficient or ineffective retirement planning. There are some individuals that do, or have done for them, sufficient and effective retirement planning. Insufficient or ineffective retirement planning causes Americans to experience decreased financial wealth, health, objective living standards, and subjective well-being in addition to suffer increased anxiety, depression, stress, and worry. Huang (2017).

Retiring is inspiring as it brings the employee back to his own personal life with

the accompanying sum of financial benefits. Retirement can be either fulfilling or miserable depending on how the retiree makes it. Machica & Machica (2017)

Baby Boomers are now considering retirement. As a group, Baby Boomers are earning and spending more than their parents did. Their net worth is higher thanks to the stock market and real estate values, but their lifestyle expectations are also higher. Only about half of the boomers are saving enough to maintain their pre-retirement standard of living. For the other half, the standard of living will have to decrease unless they save more or work longer. Quinn (2004).

Teachers often regard themselves as unlikely candidates for financial success, chiefly because they earn low starting salaries. But people of modest means can build wealth over time if they adhere to certain simple strategies. An effective approach to building wealth can be summarized in three rules: (1) Start early; (2) Buy and hold; and (3) diversify. Following these commonsense rules can put teachers on the right path towards financial security. Schug and Wood (2005)

The results of three national surveys show that many Americans are making poor financial choices in such basic areas as saving for long-term goals and managing personal credit. Schug and Chow (2002). Some suggestions have been made to increase financial literacy in middle school and high school. One aspect of being a millionaire is how it affects behavior. One study shows that behavior of the wealthy and non-wealthy is similar especially with respect to time spent on work. However, the nature of their time use differed in critical ways that are related to life satisfaction. Millionaires spent more time engaged in active leisure rather than passive leisure and millionaires spent more time engaged in tasks at work over which they had more control. Smeets, Whillans, Bekkers, & Norton (2020).

**Data ANALYSIS**

As previously stated, the purpose of this paper is to examine the mechanics of the retirement funding requirement at various ages and the appropriate funding vehicles which can be used. This is essentially a time-value-of-money problem. The following variables are identified:

N = Number of periods in project.

i = Interest rate assumed in the model.

FV = Value of the investment at end of project.

PV = Value of investment at beginning of project,

PMT = Required monthly or annual payment.

N will be number of years until retirement which is assumed to be a retirement at age 62. “i” will be the interest rate used in the model. Since this is a long-term analysis and the investment horizon is long, an earnings rate of 10% will be used. This is the average annual return of the S&P 500 over a 30-year period. FV will be frozen at a million dollars because that is the target value of the investment at the end of the period. PV will be zero. This assumes there are no assets available at the beginning of the analysis. PMT will be the calculated variable in the model

**Analyses Method**

Since this is a time-value-of-money problem, future value will be used as the analysis model. The model needs to be adjusted by isolating PMT. PMT will be the calculated value. Using the PMT function in Excel, we can vary the N based on the ages 20, 25, 30, 35, 40, 45 50, “i” will be 10%, FV will be 1 million dollars, PV will be zero and the PMT will be calculated. Running the analysis results in the following table:

|  |  |  |  |
| --- | --- | --- | --- |
| **Age** | **Years until retirement** | **Monthly Payment** | **Annual Payment** |
| 20 | 42 | $129.13 | $1,859.99 |
| 25 | 37 | $214.60 | $3,029.94 |
| 30 | 32 | $359.05 | $4,971.72 |
| 35 | 27 | $607.64 | $8,257.64 |
| 40 | 22 | $1,049.13 | $14,005.06 |
| 45 | 17 | $1,878.77 | $24,664.13 |
| 50 | 12 | $3,617.45 | $46,763.32 |

The table shows that the length of time until retirement has a profound effect on the PMT. At age 20 a required monthly payment of $129.13 is needed. If you wait until age 50, the required monthly contribution is $3,617.45. What is clear is that the earlier you start saving for retirement the better off you will be. As stated previously, a retirement obligation is created at birth. If you funded the retirement obligation at birth (N=62, i=10%, FV=$1,000,000, PV=$0), the monthly required payment would be $17.39. The funding vehicle in this case would be variable universal life insurance. The funds can grow tax free if structured properly. Investment in equity securities outpaces inflation. Finally, it provides the initial level of financial planning for the child.

What is implied in this model is tax deferral. The money needs to grow tax deferred or tax free. Tax deferral can be achieved through a traditional Individual Retirement Account (IRA) or through a 401(k) plan. Tax free growth can be achieved through a ROTH IRA or ROTH401k.

**Contribution to the Literature**

This paper shows that retiring as a millionaire is an attainable goal. The individual must have a plan which is fully funded. It also highlights the fact that time to retirement has a profound impact on the accumulation of wealth. The paper quantifies the funding requirement at various ages and addresses the issue of funding vehicles. The analysis shows that at the age of 20 a monthly funding requirement of $129.13 is required to achieve a million dollars at retirement. The analysis also shows the monthly funding obligation at age 50 is $3,617.45 illustrating that there is a point where it is too late to achieve the million-dollar goal. The paper also identifies the optimal age to begin retirement planning. A retirement funding obligation is created at birth and should be funded at that point.

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