

WHAT DOES IT MEAN TO BE “WEALTHY”?

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What does it mean to be wealthy? Is a person wealthy if they are a millionaire? Is a person wealthy if he is in the top 1% of income or maybe the top 5% or even the top 10%? Or, maybe a person is wealthy if he or she is in the top 1% of net worth, or top 5%, or top 10%.

What caused me to begin thinking about this question was an article on **MSN Money** written by Jason Nolte titled, “Today’s millionaires aren’t feeling very wealthy.” (July 24, 2013). This article quoted a survey conducted by the *UBS Investor Watch* in which they asked 4,450 investors whether they felt wealthy. According to **CNBC**, the survey reflected that 60% of those worth \$5 million or more said they were indeed wealthy, while 28% of those between \$1 million and \$5 million said they were wealthy.

Also, the survey revealed that only 10% of those surveyed said being wealthy “means never having to work again” – instead, that is just “rich.” Only 16% think passing a certain threshold of assets means wealthy, while more than half the respondents said that being wealthy meant “no financial constraints on activities.”

Two other surveys quoted in the article provided two alternate definitions. One by an **Ipsos Mendelsohn** poll said that being wealthy meant earning \$1.4 million per year. In the other survey from **Fidelity**, the respondents said \$5 million in assets was wealthy.

Some recent data from **Michael Morrison**, dated February 29, 2012, shows the top 1%, 5%, and 10%, respectively, have household incomes of \$383,000, \$175,000, and \$148,000. Data from the *Wall Street Journal* from 2010 showed the top 1%, 5%, and 10% for household net worth was \$6,816,000, \$1,863,800, and \$952,200.

As you can see the, answers for what is wealthy are all over the board. As I have thought about this question for my customers, I have come up with my own definition. To me, wealthy should be defined as the net worth that allows the income from a person’s assets to provide the lifestyle the person desires to live in perpetuity. (This means a person’s assets can provide for his required standard of living without the person working.) Wealthy in my mind relates to how a person wants to live, what they want to do, and in the long run, if a person’s assets can provide for that lifestyle from their investment income throughout the person’s remaining life.

Once a person knows what the desired income is that is needed to provide for the lifestyle they want to live, the next step is to determine how much in assets is needed to produce that income. The standard withdrawal rate that most CFPs like me use as a safe withdrawal rate that will provide a person an 80% chance to not run out of money in a 30 year period is 4%. Normally, the thinking is that a 4% withdrawal rate allows a diversified portfolio to grow at the rate of inflation, which also allows the 4% withdrawal to grow by the rate of inflation. Now, to make my definition for wealthy work, it also means that the income would need to be 4% on a diversified portfolio (including all earning assets including farm land) for the portfolio to be enough. As an example, if the income from a portfolio is only 2%, then by my definition the portfolio would have to be twice as large. If managed properly, I think it is possible to get 4% in interest on a diversified portfolio, but most people's portfolio does not produce that much.

Therefore, if a person feels that \$40,000 is all they need to live the lifestyle they desire, then it is possible for a person with a \$1,000,000 portfolio to be wealthy (again, if the portfolio can produce 4% and grow income in perpetuity). If the number is \$100,000 of ongoing income, then the portfolio size of the assets to be wealthy would be at least \$2,500,000. And, if the number is \$200,000 of income then the number would be \$5,000,000.

There are numerous variations to my definition. First, if the person described above can live the lifestyle he desires on \$40,000 and is retired and is receiving \$20,000 in Social Security, then I would say that this person would only need half as many assets – \$500,000 to produce the other \$20,000 to be wealthy.

Finally, the lifestyle a person desires to live comfortably could include items such as providing a certain amount for a person's children or grandchildren each year and/or giving a certain amount to charity each year, etc., which could make the person's desired lifestyle much higher than might be expected. This is up to the individual.

Although not perfect, I think my definition allows a person to determine for themselves what is wealthy. It is said that beauty is in the eye of the beholder; and I think wealthy is in the eye of the individual - what he desires from life combined with the ability of his assets to generate income to produce it.

Remember every investor's situation is unique, and it is important to review your specific situation with a financial professional.

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