

ARE YOU RICH? HOW THE WEALTHY ARE DEFINED

Identifying markers of wealth can be a complicated process, experts say.



By: Maryalene LaPonsie - June 7, 2019

How much money do you need to be rich?

According to a 2019 Modern Wealth Survey from Charles Schwab, Americans reported needing an average of \$2.3 million in personal net worth to be identified as wealthy.

The survey results don't surprise Nick Giacomakis, president and founder of New England Investment & Retirement Group Inc. in North Andover, Massachusetts. However, he isn't sure they actually represent what it means to be rich. "Do I think it's accurate? Absolutely not," he says.

Financial experts say it's hard to quantify what makes someone wealthy. A personal net worth of \$2.3 million in New York City is much different than having that net worth in the Great Plains, explains Chad Chubb, certified financial planner and founder of the advisory firm WealthKeel in Philadelphia.

Geographic location isn't the only factor that can impact someone's perception of wealth. "Defining wealth is a complicated process that isn't as simple as the amount of money someone has in the bank," explains Ed Mermelstein, a real estate attorney, foreign investment adviser and developer based in New York City at One & Only Holdings LLC. In addition to income and assets, factors such as debt must be taken into account.

Plus, there are intangible markers of wealth, such as peace of mind, which are hard to measure. "It's like happiness. How do you know when you're happy?" asks Jeff Klauenberg, certified financial planner and founder of the wealth management firm Klauenberg Retirement Solutions in Laurel, Maryland.

All of these factors translate to widely different perspectives on what makes someone rich. Keep reading to learn more about how some people define wealth and what finance experts suggest is needed

in order to achieve financial freedom.

Wealth By the Numbers

There are often discrepancies in how people perceive wealth. For instance, the 8% of the Schwab survey respondents who said they were already rich believed they achieved wealth once their net worth was an average of almost \$700,000. That's well below the \$2.3 million average cited by others surveyed.

The top 1% of income earners is also often used to categorize the rich. Those people made at least \$719,000 in 2017, according to the most recent wage data reported by the Economic Policy Institute, a nonprofit think tank.

When it comes to taxes, the standard for wealth is set lower. Single taxpayers only need to have an annual income of \$204,100 in 2019 before they fall within the 35% tax bracket. For married couples filing jointly, incomes greater than \$408,200 are subject to the 35% tax bracket.

The limits for some tax deductions are even lower. For instance, the ability to make deductible contributions to an IRA begins to phase out for couples filing jointly once they reach an income of \$103,000. However, that limitation only applies to those who also have a workplace retirement plan such as a 401(k). For the Lifetime Learning Credit, which can offset the cost of higher education, the tax benefit phases out for joint filers earning \$116,000 in 2019.

Income Is Only Part of the Equation

The size of someone's paycheck is only one factor contributing to overall wealth. Income and assets won't make people feel rich if they have spent all their money on large houses, multiple vehicles or supporting their adult children, Giacomakis says. It's a scenario he's seen with some clients. "If you asked if they were rich with \$3 million, they would laugh and say they are just getting by," he says.

Even high earners who aren't spending frivolously

may have accumulated substantial student loans while preparing for their career. "When you drive through the nice neighborhood and see the nice cars, you don't know what's behind the scenes," Chubb says.

Wealth can also be relative. "Someone may perceive themselves as rich until they see another person buying a house for double what theirs cost," Mermelstein says. What's more, an income that may seem healthy in some parts of the country can feel meager elsewhere. For instance, \$100 spent in Mississippi in 2016, the most recent year for which data is available, had nearly a third more buying power than \$100 spent in Hawaii, according to an analysis of government data by the nonprofit Tax Foundation.

Wealth Is a State of Mind

Klauenberg asked family, friends and clients what would indicate to them that someone is wealthy and found they all had surprisingly similar answers. "To them, being rich is being able to do everything they want to when they want to," Klauenberg explains. "It's not the dollars. It's what it allows us to do."

"Is rich working one day a week in an RV while you're traveling the world?" Chubb asks. Or is rich having a big bank account balance, expensive car and second home? The lifestyle you desire can have a direct impact on how much money you need in the bank to feel rich.

However, even those with minimal material needs won't feel rich living paycheck to paycheck. Timothy McGrath, a certified financial planner and managing partner with Riverpoint Wealth Management in Chicago, defines being rich as having enough assets and net worth to sustain a certain lifestyle even if a source of income dries up.

Not everyone sees wealth as being tied exclusively to finances though. Klauenberg has another simple measure he uses: "I feel rich because I have family, friends and a social life." And those are all things money alone can't buy.

For over thirty years, Jeff Klauenberg, CFP®, has focused on finding solutions to retirement problems. Klauenberg Retirement Solutions has continually aimed to be on the cutting edge of financial and retirement planning with comprehensive knowledge to develop solutions for their clients' retirement and estate planning needs.

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