TOWERPOINT
WEALTH

5 STEPS TO RETIRING WITH $2 MILLION

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How Much is Enough? 5 Steps to Retiring with $2 Million

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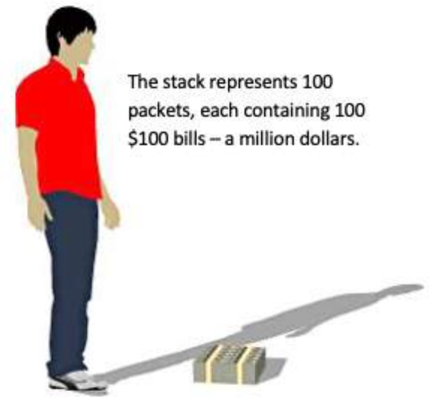
A 2020 survey from *Schwab Retirement Plan Services* found that the average worker expects to need roughly $1.9 million to retire comfortably.

Is retiring with $2 million dollars a reasonable goal? There certainly are a myriad of moving parts involved in answering the question of whether retiring with $2 million is enough, and a number of subjective and objective variables that need unpacking.

Whatever the number, **here are five steps you can take immediately to increase the size of your nest egg.**

Is $2 million the magic number?

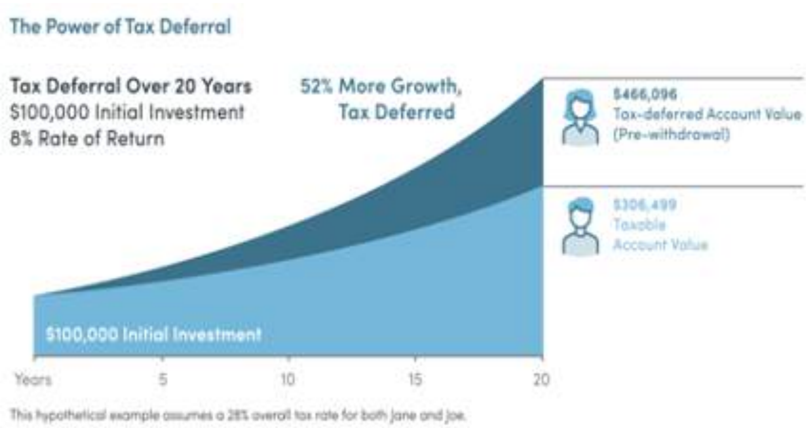


How pragmatic is it to consider retiring with $2 million tucked away in your nest egg? Is retiring with $2 million even enough money to truly be comfortable, especially considering **today's rampant inflation**? Does retiring with $2 million require that you work until you are 75 or 80 years old? And what do the nebulous and subjective concepts of "comfortable" and "retirement" even mean?

While they are tremendously important ideas (or perhaps *abstractions*) to define when answering the question of whether retiring with $2 million is "doable" (and is enough money), we will reserve opining on what "comfortable" and "retirement" means to the intimate conversations we have with each of our current and prospective clients. Needless to say, different people define these two terms very differently. Instead, let us explore five specific steps that may put accumulating $2 million within reach for you, while leaving yourself enough time in retirement to actually enjoy and spend some of it!

Step 1 – Don't Wait, Start Investing NOW!

The fastest path to retiring with $2 million, in our opinion? Drop everything, establish a plan to begin investing, and immediately begin to pay yourself first. Right now! The sooner you start, the more time your assets have to compound and grow:



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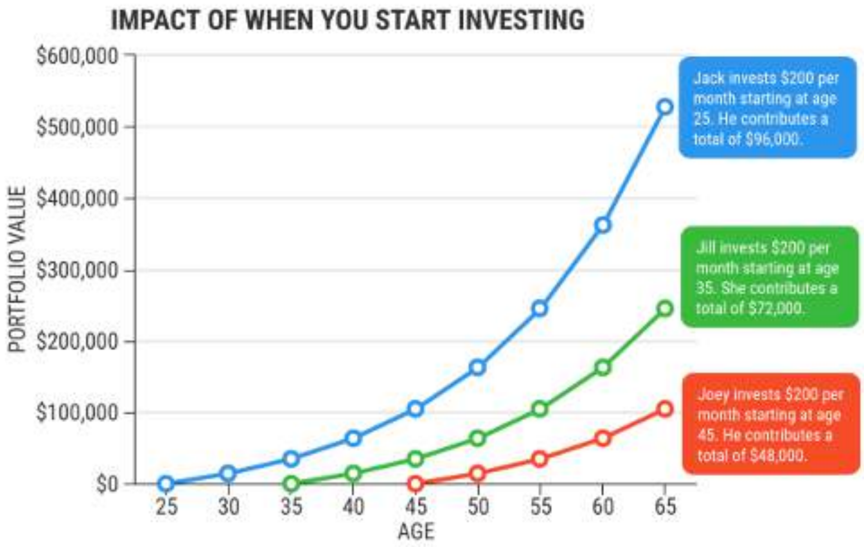

When it comes to retiring with $2 million, *time is money*, and the sooner you start to invest, and the more consistently you do so, the easier it will be to hit this achievable goal.

If you already are proactively saving and investing, now is the time to make an incremental *increase* to the dollar amount, or percentage, or both, that you consistently add to your nest egg.

Step 2 – Properly Diversify Your Investment Portfolio, and Be Wary of Individual Stocks!

The idea of diversification is basic yet essential to most investors. Unless you are truly willing to lose everything, do not put all of your eggs into only one or two baskets. Protecting against the risk of "significant shrinkage" of your retirement nest egg is critical; it is important (we argue essential) to allocate your resources and investments over a broad spectrum of asset classes and sectors.

Being diversified does not assure a profit nor guarantee against a loss, but it does help to insulate your retirement nest egg against major market declines. Retiring with $2 million is a lofty goal, and the importance of managing your downside should be as much of a priority as consistently growing your portfolio. Adding additional types of assets to a portfolio will help it last longer, and help you avoid major pitfalls in your journey towards a financially-independent retirement.

Additionally, we believe it is important to exercise extreme caution when considering investing in individual stocks. While it can be fun and "sexy" to own specific companies, investing is not meant to be fun nor sexy. Do not confuse speculation with investing.

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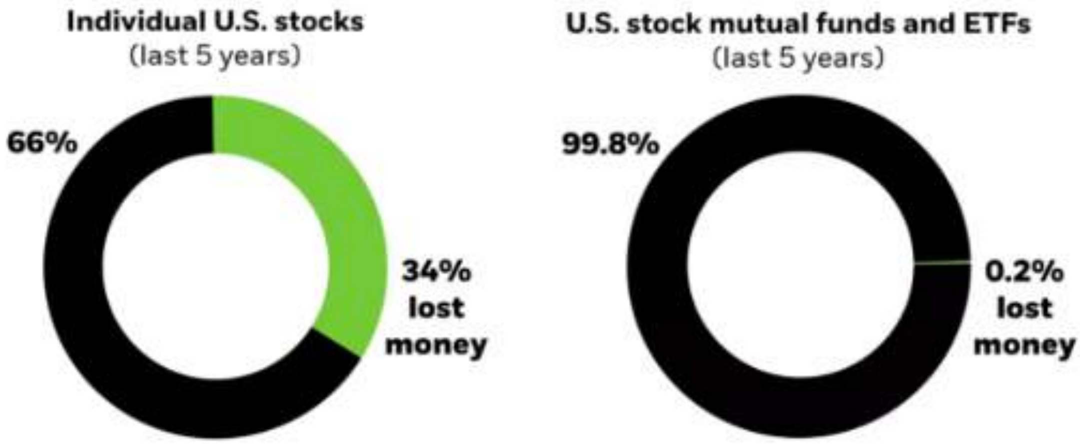
Chase individual stocks at your own risk. Individual equity ownership oftentimes becomes a short-term bet – even an outright gamble – which is the antitheses to a longer-term strategy geared to helping you retire with $2 million.

While all investing involves risk, this risk materially increases when focusing on or owning just a few stocks. The statistics bear this out:



	# positive	# negative	% lost money
U.S. stocks	2420	1225	34%
U.S. stock mutual funds	1755	4	0.2%
U.S. stock ETFs	270	0	0%

Source: Morningstar, 12/31/2020

History is replete with examples of blue-chip companies that have crumbled miserably, and correctly picking a long-lasting, top-performing stock is usually a product of blind luck rather than skill. Don't be overconfident in either your acumen to evaluate the investment merits of a single company or stock, your ability to consistently predict the future, nor your ability to consistently guess correctly which individual equities might outperform.

A little boring? Perhaps. But being boring and disciplined in how you grow, protect, and diversify your nest egg, is an excellent way to improve your odds of successfully retiring with $2 million dollars.

Step 3 – Take Advantage of FREE MONEY

We believe that there is no EASIER way to compound your wealth and improve your odds of retiring with $2 million than by fully understanding, and then maximizing all employer matching program opportunities within your company sponsored retirement plan:

If your employer offers a match, be sure to find out the following information:

- Is there a waiting period until you are eligible for it? Common waiting periods are six months, twelve months, or sometimes no waiting period.
- What is the actual formula your employer uses to compute their match? Put differently, what percentage of your own contributions will your employer match? $0.50 on the dollar? Dollar for dollar? Up to what maximum of your contributions?
- How much do you have to contribute to qualify for the match? Oftentimes, you have to contribute a minimum amount of your pay into your company-sponsored retirement plan in order to receive the maximum match, which hopefully is not a problem in your pursuit of retiring with $2 million!
- When do the company matching contributions vest? Put differently, how long do you have to wait, or work for your employer, before the company's matching contributions are 100% yours to keep?

Another form of FREE MONEY employers may offer is a profit sharing plan, in which employers give workers a portion of the company's profits in the form of pre-tax cash contributions to an employee retirement account.

Regardless of what the rules are, or in what form the FREE MONEY is packaged, if your employer makes available matching contributions and/or profit sharing, taking full advantage of it makes retiring with $2 million that much easier.

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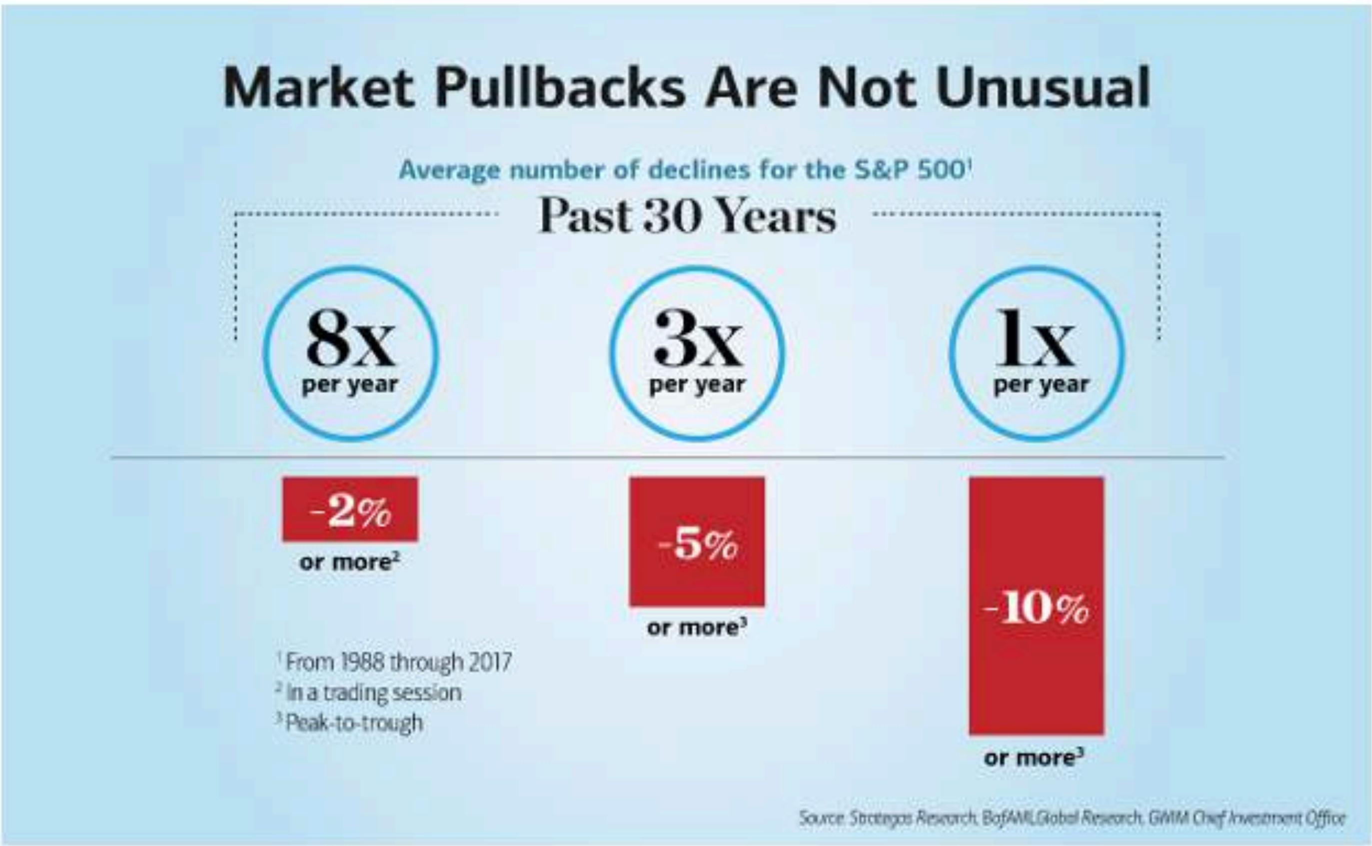
Step 4 – Don't Panic When the Market Declines

A market decline of 10% or more is also known as a correction. And they happen *regularly*. How regularly? On average, once a year!



If you are able to develop and cultivate a mindset that allows you to anticipate, perhaps even *expect*, a market correction (decline) to happen, you will be much less inclined to hurt yourself by getting scared, hitting the panic button and selling low to "stop the bleeding." **Don't kid yourself, this happens, regularly, even to investors who posture as "disciplined," "objective," and "unemotional."**

Want to improve your probability of retiring with $2 million? Be smarter than your neighbor, know that declines happen, and that **there will be years when you have less money on December 31 than you did on January 1**. It is never fun, and can even be outright painful, to experience a year-over-year decline in the value of your overall net worth, but enduring these periods is absolutely necessary. Fortunately, history has continually proven and strongly suggests that the odds are in your favor, especially if you have a little bit of time to patiently wait for the recovery to occur:

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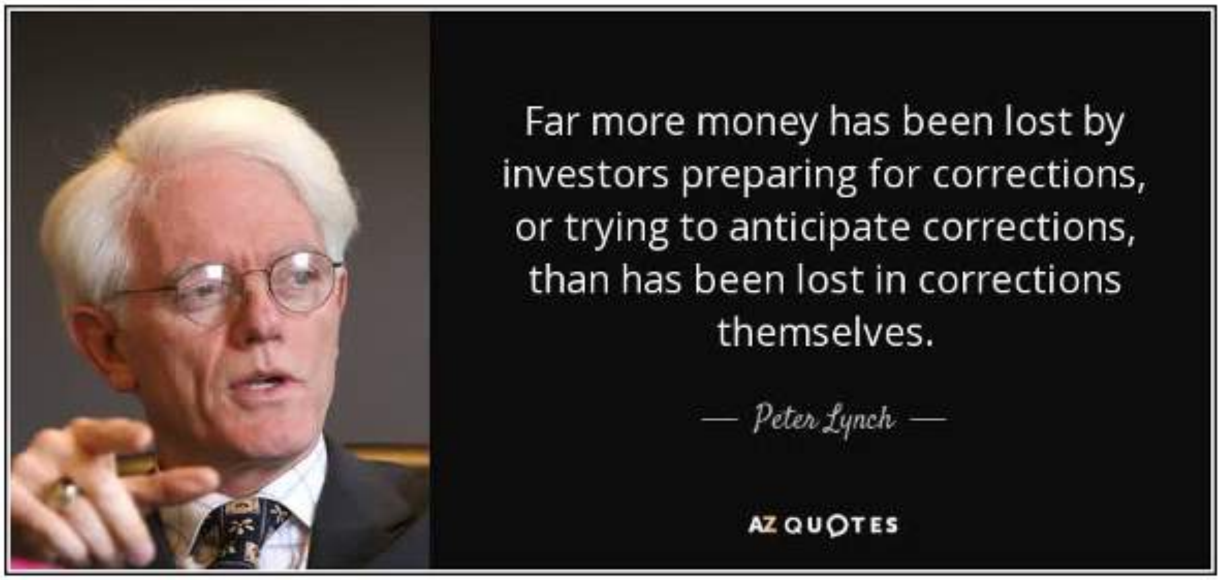
Who summarized this concept best? We look to three legendary investors:

1. Peter Lynch



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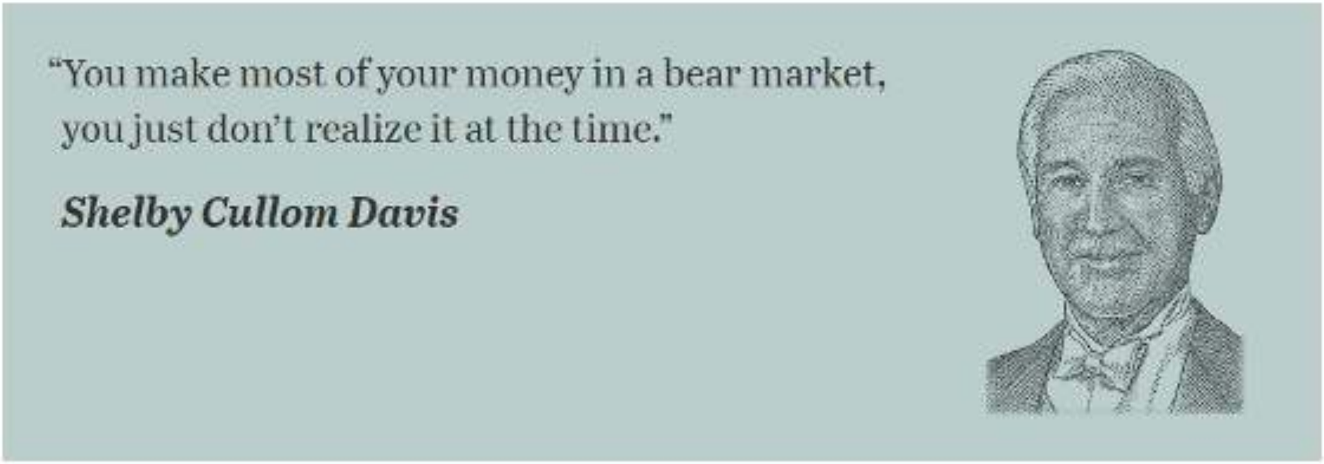
2. Shelby Davis



3. Warren Buffett

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Step 5 – Trust in America, and Own Real Estate

Stocks, bonds, and mutual funds are wonderful investment vehicles, and are excellent tools to build wealth. However, like any investment vehicle, they have their drawbacks – namely, they can be volatile, tax inefficient, intangible, and expensive to leverage. Contemporaneously, real estate is a wonderful investment vehicle to build and accumulate wealth, for reasons similar to stock/bond/mutual fund ownership, and also for a number of reasons that are quite different.

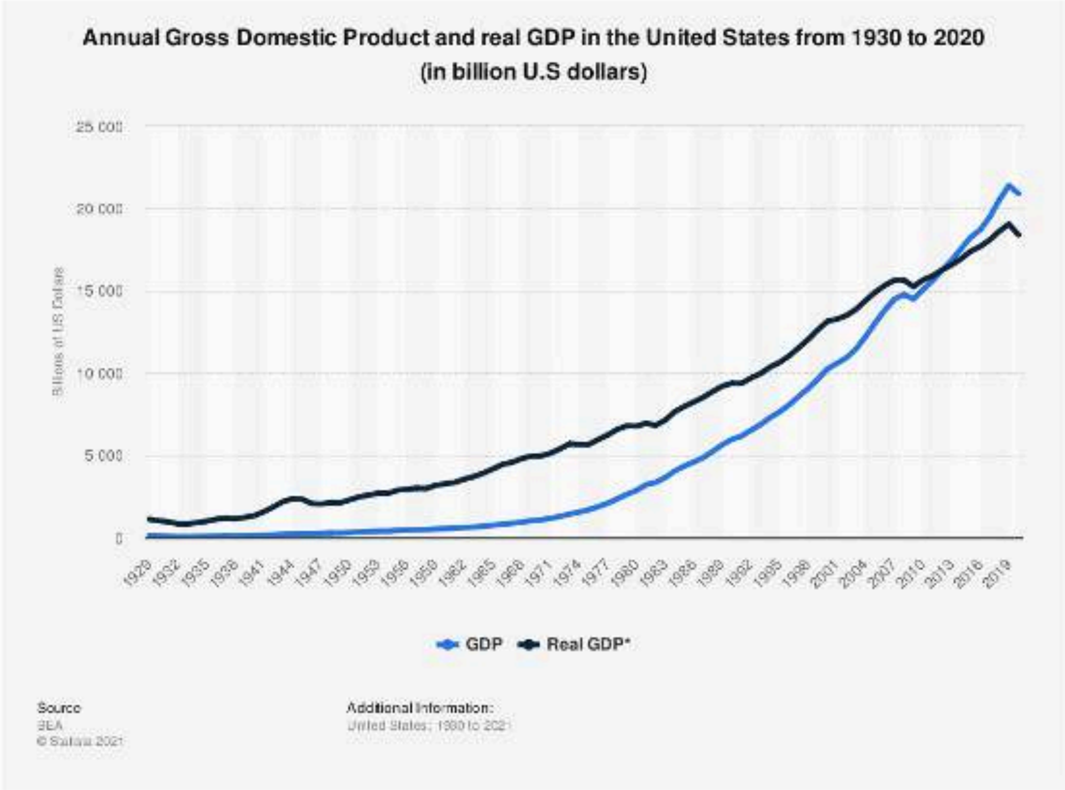
Real estate values, like the stock market, predictably increase *over time*. This long-term growth is representative of the value continually created by the advancements in our standard of living and in our economic productivity, both here in America and globally.

The growth in the value of stocks, bonds, and real estate is directly correlated to the continued growth of our gross domestic product, or GDP.

Put differently, and we would argue much more eloquently, by Warren Buffett:

“The American miracle, the American magic has always prevailed, and

it will do so again. ***Nothing can basically stop America.****”*



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Don't let the negativity of today's 24/7 news cycle (in which bad news sells!), sway your opinion – we live in an amazing place, in an amazing point in time.

Let's look closer at two main reasons to own real estate:

1. Income tax benefits

When insidious income taxes are avoided or deferred, retiring with $2 million becomes much easier, as compounding the growth of your overall investment portfolio occurs much more quickly when Uncle Sam is not taking a big bite out of your nest egg. Consider:

Income tax breaks and deductions. There are a myriad of tax breaks and deductions potentially available to real estate investors that are not available to those who invest in stocks, bonds, and mutual funds. Deductions of the expenses associated with owning real estate (property taxes, property insurance, mortgage interest, property management fees, maintenance and repair costs, advertising, legal and accounting fees) are oftentimes tax deductible, as is depreciation.

Section 1031 tax-free exchanges. A 1031 exchange allows an investor to do a tax-free swap, or exchange, of one investment property for another one, while *deferring the payment of capital gains taxes* on the transactions. Unfortunately, "1031s" are not allowable nor applicable to the sale of traditional stocks, bonds, nor mutual funds.

Capital gains tax exemption on the sale of a primary residence. If you are single, you will pay no capital gains tax on the first $250,000 of profit on the sale of your primary residence; married couples are entitled to a full $500,000 exemption. And while this $250K/$500K exemption is allowable only once every two years, it is a very powerful way to have more of your money compound, *without paying Uncle Sam*, as you pursue the goal of retiring with $2 million.

Additionally, many people consider moving and downsizing their primary residence as they enter into retirement, which can potentially unlock significant equity that can then be added to your retirement nest egg.

2. Leverage

While all-cash transactions have recently become more popular in today's red-hot and competitive real estate market, the most common way to buy real estate continues to be by borrowing money to do so. This is also known as leverage. While it can be a double-edged sword (problems can quickly arise if property values decline, too much money is borrowed, or the interest paid on borrowed funds is too high), leverage provides a wonderful opportunity to own MORE of an asset for less money, expanding your potential to see your nest egg grow.

The simplest example of leverage is the down payment "obligation" when purchasing a primary residence. You typically only have to put down, 20% of the cash to buy *and own* 100% of the asset! And while the borrowing and down payment terms may not be quite as favorable, the same leverage opportunity holds true when buying and owning investment real estate. In today's ultra-low interest rate environment, larger amounts of money can be borrowed more cheaply (read: at lower interest rates), affording investors additional leverage when building and growing their overall net worth. This can be quite helpful in accomplishing the goal of retiring with $2 million!

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Bonus Step – AFTER You Have Retired with $2 Million – Pick the Right Place to Retire

Clearly, maximizing your lifestyle post-retirement requires attention to the cost of living. Stretching a dollar is always important, and retiring with $2 million “buys” you options, specifically, on where you choose to live.

Click the thumbnail below for the *ThinkAdvisor.com* slideshow that focuses on the **8 Best U.S. Cities for Retirement Over the Past 5 Years**:

It is important to note that accumulating enough money is only Act One when determining whether retiring on $2 million is feasible. Figuring out how to properly, and sustainably, withdraw money (AKA decumulate) from your nest egg is Act Two, and is just as, if not more important to get right. A way-too-simplified back-of-the-envelope computation might look like this:

- $2,000,000 nest egg x 3.5% annual withdrawal rate = $70,000/year
- $70,000/year – 25% in assumed federal and state income taxes = $52,500/year net retirement income, or $4,375/month

This Information is intended to be general in nature, for simplistic illustrative purposes only, and is not intended to serve as Investment advice, since the availability and effectiveness of any strategy is dependent upon your individual facts and circumstances.

However, there are a myriad of additional variables and considerations that factor into this “retirement calculus.” What about pensions? Inflation? Social Security? Income from part-time work? Variability in market growth and investment returns? Appropriateness and sustainability of

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a 3.5% annual withdrawal rate? Increases in health care and insurance expenses as you age? Legacy and philanthropic planning and objectives?

The list of important and yet very subjective considerations goes on and on. When developing a customized retirement income plan, the nuance in working through and deciphering each consideration cannot be understated.

Is retiring with $2 million doable? Is $2 million enough to be happy and comfortable? Well, it depends.

Without a much deeper analysis of the variables mentioned above, it can be very difficult to accurately answer. However, what we can say with confidence is that if you have, or have nearly, accumulated $2 million for retirement, you have an excellent head start, and have probably secured yourself many attractive options.

In our opinion, wealth is not defined by a set amount of dollars, but by the freedom it affords you. And having options and choices on how to live your life is the essence of what freedom, and retirement, truly is.

How Can We Help?

At Towerpoint Wealth, we are a fiduciary to you, and embrace the *legal obligation* we have to work 100% in your best interests. We are here to serve you and will work with you to formulate a comprehensive and *tax-efficient* retirement strategy. If you would like to discuss further, we encourage you to call, 916-405-9166, or email jeschleman@towerpointwealth.com to open an objective dialogue.

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