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The Million Dollar Estate

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Abstract

This paper examines the concept of a million-dollar estate for the average American. /This paper illustrates that a million-dollar estate can be achieved if started early enough at a low cost. The study also examines the concept of beginning financial planning efforts at birth. A retirement obligation is created at birth and should be funded. Educational costs must be planned for at age 18. Some form of education is required. Either college or technical school will be needed. The best place to start is with a $50,000 variable universal life policy on the newborn. This policy can be overfunded from ages 1-18 and provide the initial bases for financial planning.

Introduction

Life insurance is used to build an estate and annuities are used to liquidate it. The average personal income in 2023 was $63,214 Zippia (2024). Over a 40-year earnings period, the average American will earn $2,528,560. The real issue is how much of this estate will be retained. At an earnings capitalization rate of ten percent, the average American has an insurable interest of $632,140, but it is suggested that if everyone had a million-dollar estate the profound monetary impact that would have on the world can not be overestimated. To have a million-dollar estate, there is an interplay between insurance and retirement assets that needs to be balanced over an individual's life.

This analysis makes several assumptions. First, the analysis is for a male age 20, non-smoker. The mix of variable universal life and term insurance will be used to build the estate. The earnings rate in the model is assumed to be 10%, which is the 30-year average rate of the S&P 500. The investment horizon is 40 years so 100% investment in equities is assumed. The appropriate blend of variable universal life and term is $250,000 variable universal life insurance and $750,000 term insurance.

Purpose of Study

The purpose of this study is to examine the viability of a million-dollar estate for the average American. An analysis is completed using the following model:

Gross Estate = Death Benedit of Variable Universal Life Insurance + Death Benefit of Term Insurance + Retirement Assets

Literature Review

Based on the recently developed Wealth Transfer Microsimulation Model (WTMM), the forthcoming wealth transfer will be significantly larger than the often cited 55-year $10 trillion transfer. It is estimated that during the 55-year period from 1998 to 2052 there will be a transfer of $41 trillion. Havens & Schervish (1999). This wealth transfer will create a new golden age of philanthropy. Havens & Schervish (1999).

The federal estate tax exclusion exempts from the value of an estate up to $13.61 million in 2024. Investopedia (2024) Given that; a million-dollar estate would largely escape federal estate tax. The other issue to note is that these assets transfer by beneficiary designation. Life insurance is paid to the designated beneficiary and retirement assets belong to the designated beneficiary. While this is true for estate taxes and federal income taxes, it is not so for state estate taxes. There may be a tax liability at death for state transfer taxes.

The estate tax has little effect on the saving and investment decisions of small businesses, but does distort the decisions of larger firms, thereby reducing aggregate output and savings. Cagetti & De Nardi (2009). There is evidence consistent with the notion that wealthy elderly people change their real (or reported) state of residence to avoid high state taxes. Bakija & Slemrod (2004).

> In pooled cross-sectional analysis that makes use of individual decedent information, the relationship between the concurrent tax rate and the reported estate is fragile and sensitive to the set of instruments that are used to capture exogeneous tax rate variation. However, the negative effect of taxes appears to be stronger for those who die at a more advanced age and with a will, both of which are consistent with the theory of how estate taxes affect altruistic individuals. Finally, we find that the tax rate that prevailed at age 45 or ten years before death is more clearly (negatively) associated with reported estates than the tax rate prevailing at death. Konezuk & Slemrod (2000 p. 1)
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> An estimated 42,239 Federal estate tax returns (Forms 706) were filed for 2004 decedents, a 61-percent decrease from the 109,562 returns filed for decedents who died in 2001, the last year for which a comparable estimate we made. (1) This decrease is largely the result of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which increased the filing threshold from $675,000 for 2001 deaths to $1.5 million for 2004 deaths.
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> Estate tax returns filed for 2004 decedents with gross estates above $1.5 million reported a combined $185.9 billion in total gross estate. The largest asset type in the overall portfolio of these decedents was publicly traded stock, valued at $51.5 billion, followed by investment real estate and tax-exempt bonds, valued at $27.2 billion and $18.3 billion, respectively, Estates also reported about $3.0 billion of assets held in family limited partnership interests (FLPs). Valuation discounts taken against total assets accounted for $6.5 billion. Of this total, $3.5 billion were reported on assets held in FLPs.
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> Approximately 20.6 percent of returns filed for 2004 decedents reported a bequest to charity. Larger estates were more likely to report a charitable bequest and, on average, left a larger share of total estate to charity. After accounting for charitable bequests, marital bequests, and other deductions and credits, about 45,7 percent of returns filed for 2004 decedents reported estate tax liability. There 19,294 returns combined reported $22.2 billion in net estate tax.
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> The Federal estate tax, the gift tax, and the generation-skipping transfer tax compose the Federal transfer tax system. The /Federal estate tax, passed into law with the Revenue Act of 1916 and described in the Internal Revenue Code (IRC section 2001, is neither a tax on property nor an inheritance tax on the receipt of property. Rather, the estate tax is a tax on the right to transfer property at death. For deaths that occurred in 2004, the filing threshold for property transfers at death was $1.5 million in total gross estate. Raub (2008, p.1).

Charitable giving is good for the soul. I think we are called to help the poor and less fortunate. The opportunity exists to transfer a million worth of assets to children and build a family dynasty or transfer those assets to charity. Death does nor rob us of our ability to make our wishes felt after our death. Through wills, trusts, and estate we can reach from beyond the grave to affect financial and legal affairs.

Data Analysis

The model is based on the use of insurance products and retirement assets to build a million-dollar estate. In the early years, the estate is primarily fueled by the death benefit of the insurance products. As time passes, death benefit is replaced by the value of the retirement assets. The model is based on a male age 20, non-smoker. The analysis is run through age 60.

The Million Dollar Estate

Assumptions:								
Beginning age	20							
Ending age	60							
Male, non smoker								
Earnings rate	10%							
Annual Salary	$50,000							
		Variable Universal Life			Term Insurance	Annual	401K	Total Gross
Age	**Death Benefit**	**Annual Premium**	**CSV**	**Death Benefit**	**Annual Premium**	**Contribution**	**Balance**	**Estate**
20	$ 250,000	$ 2,400	$ 2,160	$ 750,000	$ 600	$ 5,000	$ 5,500	$1,005,500
21	$ 252,160	$ 2,400	$ 4,536	$ 750,000	$ 600	$ 5,000	$ 11,550	$1,013,710
22	$ 254,536	$ 2,400	$ 7,150	$ 750,000	$ 600	$ 5,000	$ 18,205	$1,022,741
23	$ 257,150	$ 2,400	$ 10,025	$ 750,000	$ 600	$ 5,000	$ 25,526	$1,032,675
24	$ 260,025	$ 2,400	$ 13,187	$ 750,000	$ 600	$ 5,000	$ 33,578	$1,043,603
25	$ 263,187	$ 2,400	$ 16,666	$ 750,000	$ 600	$ 5,000	$ 42,436	$1,055,623
26	$ 266,666	$ 2,400	$ 20,492	$ 750,000	$ 600	$ 5,000	$ 52,179	$1,068,845
27	$ 270,492	$ 2,400	$ 24,702	$ 750,000	$ 600	$ 5,000	$ 62,897	$1,083,390
28	$ 274,702	$ 2,400	$ 29,332	$ 750,000	$ 600	$ 5,000	$ 74,687	$1,099,389
29	$ 279,332	$ 2,400	$ 34,425	$ 750,000	$ 600	$ 5,000	$ 87,656	$1,116,988
30	$ 284,425	$ 2,400	$ 40,027	$ 750,000	$ 600	$ 5,000	$ 101,921	$1,136,346
31	$ 290,027	$ 2,400	$ 46,190	$ 750,000	$ 600	$ 5,000	$ 117,614	$1,157,641
32	$ 296,190	$ 2,400	$ 52,969	$ 750,000	$ 600	$ 5,000	$ 134,875	$1,181,065
33	$ 302,969	$ 2,400	$ 60,426	$ 750,000	$ 600	$ 5,000	$ 153,862	$1,206,831
34	$ 310,426	$ 2,400	$ 68,629	$ 750,000	$ 600	$ 5,000	$ 174,749	$1,235,175
35	$ 318,629	$ 2,400	$ 77,651	$ 750,000	$ 600	$ 5,000	$ 197,724	$1,266,352
36	$ 327,651	$ 2,400	$ 87,577	$ 750,000	$ 600	$ 5,000	$ 222,996	$1,300,647
37	$ 337,577	$ 2,400	$ 98,494	$ 750,000	$ 600	$ 5,000	$ 250,795	$1,338,372
38	$ 348,494	$ 2,400	$ 110,504	$ 750,000	$ 600	$ 5,000	$ 281,375	$1,379,869
39	$ 360,504	$ 2,400	$ 123,714	$ 750,000	$ 600	$ 5,000	$ 315,012	$1,425,516
40	$ 373,714	$ 2,400	$ 138,245	$ 626,286	$ 1,200	$ 5,000	$ 352,014	$1,352,014
41	$ 388,245	$ 2,400	$ 154,230	$ 611,755	$ 1,200	$ 5,000	$ 392,715	$1,392,715
42	$ 404,230	$ 2,400	$ 171,813	$ 595,770	$ 1,200	$ 5,000	$ 437,487	$1,437,487
43	$ 421,813	$ 2,400	$ 191,154	$ 578,187	$ 1,200	$ 5,000	$ 486,735	$1,486,735
44	$ 441,154	$ 2,400	$ 212,430	$ 558,846	$ 1,200	$ 5,000	$ 540,909	$1,540,909
45	$ 462,430	$ 2,400	$ 235,833	$ 537,570	$ 1,200	$ 5,000	$ 600,500	$1,600,500
46	$ 485,833	$ 2,400	$ 261,576	$ 514,167	$ 1,200	$ 5,000	$ 666,050	$1,666,050
47	$ 511,576	$ 2,400	$ 289,893	$ 488,424	$ 1,200	$ 5,000	$ 738,155	$1,738,155
48	$ 539,893	$ 2,400	$ 321,043	$ 460,107	$ 1,200	$ 5,000	$ 817,470	$1,817,470
49	$ 571,043	$ 2,400	$ 355,307	$ 428,957	$ 1,200	$ 5,000	$ 904,717	$1,904,717
50	$ 605,307	$ 2,400	$ 392,998	$ 394,693	$ 1,200	$ 5,000	$1,000,689	$2,000,689
51	$ 642,998	$ 2,400	$ 434,458	$ 357,002	$ 1,200	$ 5,000	$1,106,258	$2,106,258
52	$ 684,458	$ 2,400	$ 480,063	$ 315,542	$ 1,200	$ 5,000	$1,222,383	$2,222,383
53	$ 730,063	$ 2,400	$ 530,230	$ 269,937	$ 1,200	$ 5,000	$1,350,122	$2,350,122
54	$ 780,230	$ 2,400	$ 585,413	$ 219,770	$ 1,200	$ 5,000	$1,490,634	$2,490,634
55	$ 835,413	$ 2,400	$ 646,114	$ 164,587	$ 1,200	$ 5,000	$1,645,197	$2,645,197
56	$ 896,114	$ 2,400	$ 712,885	$ 103,886	$ 1,200	$ 5,000	$1,815,217	$2,815,217
57	$ 962,885	$ 2,400	$ 786,334	$ 37,115	$ 1,200	$ 5,000	$2,002,239	$3,002,239
58	$ 1,036,334	$ 2,400	$ 867,127	$ -		$ 5,000	$2,207,963	$3,244,297
59	$ 1,117,127	$ 2,400	$ 956,000	$ -		$ 5,000	$2,434,259	$3,551,386
60	$ 1,206,000	$ 2,400	$1,053,760	$ -		$ 5,000	$2,683,185	$3,889,185

As the table reflects, a gross estate of one million dollars is created in year 1. The annual premium of the 250,000 variable universal life policy is $2,400. At age 60 the gross estate is now worth $3,889,185 which is largely made up of the balance in the 401K plan of $2,683,185. The balance of the estate is made up of the death benefit of the variable universal life policy which is now $1,206,000. The million-dollar estate is relatively straightforward and easy to implement.

Contribution to the Literature

This study examines and introduces the concept of a million-dollar estate for the average American. This really involves financial planning for middle America. The study also shows that achieving a million-dollar estate is in the realm of possibility for most people. The key is to begin early. Financial planning should begin on the day you are born, A retirement obligation is created at the birth of a child and planning needs to start at that point. Each child should have a $50,000 variable universal life policy which can be used to accumulate funds. Adolescents can save significant amounts money between the ages of 1 and 18. The cash value in the variable universal life policy is invested in equities over an 18-year period. The money grows tax deferred and, if structured properly, tax free.

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