

The Untapped Market of **401(k) MILLIONAIRES:** Unlocking Wealth Management Opportunities

Quietly and anonymously, a growing segment of the population is becoming millionaires. These individuals are commonly termed “401(k) millionaires” and, according to a study by Fidelity, there are more now than ever before. This population grew by 2.5% in Q2 of 2024 and it’s estimated that there are now nearly 500,000 in the U.S (Fidelity, 2024). Perhaps even more interesting—many of them are hiding unassumingly in your retirement plans. As a retirement plan advisor, you may find yourself in the advantageous position of being connected to individuals who have amassed substantial wealth, simply by starting early and saving regularly. This represents an enormous opportunity, especially if you want to expand your business by capitalizing on the convergence of wealth management and retirement.

What’s the best way to connect with these individuals? How can you earn their trust and help them effectively manage their burgeoning wealth? Read on for some brief history and tips for engaging this population.

WHY 401(k) MILLIONAIRES SHOULD BE ON YOUR SHORT LIST

Traditionally, wealth management advisors have targeted high earners and executives who are the most likely to have substantial wealth. This makes sense, since this approach will likely be the quickest route to connecting with an ideal client. However, this also means that as a retirement plan advisor, you have unparalleled access to “Average Joes” who are quietly amassing wealth—and you may be the only one targeting them for wealth management services. Typically, an average employee who works hard and brings home a respectable paycheck will not be on a wealth management firm’s short list. But they should be on yours.

WHO IS IN THE 401(k) MILLIONAIRE DEMOGRAPHIC?

So how does someone become a so-called “401(k) millionaire”? It’s pretty simple actually. You start saving early, and you don’t stop. Thanks to good old-fashioned compounding interest, a regular saving habit from an early age is all it takes for most people to amass substantial wealth. In the Fidelity report, the average length of savings for this group was 27 years (Cerullo, 2024). This means that many of these 401(k) millionaires are Baby Boomers. This group is fast approaching retirement and have been saving roughly since the 80s. In fact, just last year, 4.1 million Baby Boomers turned 65, a record number! This rate is expected to stay constant for the next several years—which represents a key opportunity for wealth management (Lee, 2024).

WHAT ARE BABY BOOMERS LIKE?

As all these Baby Boomers prepare to retire, what's the best way to connect with them and cultivate a relationship? First, you'll need to understand how they think and what they prioritize. Typically, Baby Boomers have what we call a "scarcity mindset." Even if they have a lot of savings, they're frugal and not inclined to spend much at all. As they enter retirement, they strive to keep their expenses low and are unlikely to blow their savings on a luxury house, car, or vacation. This presents an interesting challenge and opportunity for wealth managers: how to help Baby Boomers manage their (substantial) savings throughout their retirement since it's unlikely they'll use it all before they die.

It's also important to note that most people in this demographic will not think of themselves as a candidate for wealth management. They don't consider themselves wealthy and would be unlikely to spend on financial services. You may want to consider alternative ways of supporting them, like an hourly pricing model, so they aren't scared away by what they'll view as high fees or commitment.

HOW TO POSITION YOURSELF AS AN ALLY

Since we know Baby Boomers will likely be fearful of spending money, and skeptical of the wealth management industry, you'll want to position yourself as a trusted mentor and friend. Don't dismiss their concerns, but make yourself available to talk through them and help find a plan or solution that will make them feel at ease.

Key Opportunities:

1. Legacy Planning

Since most won't outlive their savings, they're eager to pass on their wealth to children and grandchildren. Helping them determine asset allocation when they pass is a vital part of helping this demographic with their finances.

2. Family Investments

This population will also want to invest in their children's and grandchildren's future now. They may want to open up a 529 or other similar plans to start putting money away for educational expenses.

3. General Assurance

Remember, this population is frugal and concerned that they don't have enough money. They'll want you to address their concerns, and help them chart a sustainable path for their future retirement.

Case Study: Jane Doe

We'll end this exploration with the fictional case of Jane Doe, a 401(k) millionaire. Jane is preparing to retire soon. Here's Jane's case by the numbers:

Savings: \$1.7 million

Monthly Expenses: \$2,200

Social Security Check: \$2,000



Her Questions:

Jane is nervous about making ends meet in retirement and she wonders if she'll have to keep working. What do you think? Should Jane be concerned? How can you talk to her about her savings?



Your Answers:

As her advisor, you can gently assure Jane that she can safely withdraw 4% of her retirement savings each year—which for her first year would be \$68,000 or nearly \$6,000 a month. Since she really only needs \$200 to supplement her Social Security check and cover monthly expenses, she should be confident in her ability to completely retire, and enjoy it! Jane will be looking to you for guidance on how to manage her surplus and as her plan advisor, you'll be perfectly poised to help her manage her money well into her golden years.

CONCLUSION

In short, 401(k) millionaires represent a key opportunity for expanding your retirement planning business into the wealth management space. With the right approach, you can build trusting, supportive relationships that will benefit these super savers and help you substantially grow your assets under management.

References

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