

What It's Like To Have a Seven Figure Income

Katie and I have been very fortunate the last few years, mostly due to [the financial success of The White Coat Investor](#), LLC. This has put us in a financial situation we [never expected](#) to be in. Now don't get me wrong. We always expected to be financially successful. We always expected to eventually be multi-millionaires. I went to medical school and expected to have a decent income as a result. I started learning about personal finance and investing in residency and realized that becoming wealthy on that decent income [wasn't really particularly difficult](#). Sure, we became wealthy a little faster than we expected to for various reasons. But honestly, back in 2010 when we were deciding whether to [get out of the military or stay in](#), we ran our projections with an income of \$225,000 per year, which was the average emergency physician income at the time and I assumed I would never make any more money than that. We certainly NEVER expected to have a seven-figure income.



As a relatively new seven-figure-earner, I'd like to give those who have not yet had a seven-figure income a look behind the scenes at what it is really like. I thought for a long time about whether or not to run this post after writing it,

as I'm sure the subject will attract a certain amount of hate. I hope it doesn't come across as a humblebrag, but since blog readers already know what WCI, LLC makes due to [our transparency efforts](#), and since that figure dwarfs an emergency physician salary, our income shouldn't be surprising to anyone. This entire website is dedicated to solving "first world problems" already. If you don't like reading about first world problems, you're in the wrong place. I hope you find the post interesting and perhaps even useful. We've made a habit over the years of writing about the financial issues we personally face and figured why stop now even if this issue is admittedly fairly rare for our target audience.

Survey of the Land

There aren't very many Americans with a seven-figure income, even as the number of millionaires increases each year (remember a millionaire has a seven-figure net worth- what she owns minus what she owes.) In fact, the 1% starts at something around \$350-400,000/year. [Half of the 1% makes less than \\$500,000 a year](#) and more than 3/4 of the 1% make less than \$1 Million a year. It's important to realize that when you look at the 1% all together that you're lumping doctors and billionaires together, and there is a dramatic difference between a \$1 Million income and a \$100 Million income. [One has a \\$50,000 ski boat](#) on a trailer in the driveway and the other has a \$10 Million yacht.

Inflation is Part of the Story

The truth of the matter is that eventually, at some point in the future, most Americans are going to have a seven-figure income. Just like [most good savers who invest wisely can retire as millionaires](#) these days even with average earnings, inflation changes things over decades. The image of a millionaire in our public consciousness comes from the gilded

age of the 1920s (like the guy on the Monopoly game box.) Well, a millionaire in 1920 is the equivalent of a decamillionaire now. At 3%/year inflation, 100 years from now, even with no increase in our productivity or standard of living, the average American household income of \$55,000 will actually be \$1 Million. So if your idea of a seven-figure income is rooted somewhere in the past, well, it's not quite the same thing. It's still a ton of money, of course, but maybe not as much as you think.

We Weren't Here For Our Entire Careers



Most of us seven-figure earners are first-generation rich. We weren't here for our entire careers, much less our entire lives. Many of us aren't even wealthy yet. Remember that wealth is a net worth, not an income. We're often HENRYs- High Earner, Not Rich Yet. Thanks to a heavy and [increasing student loan burden](#) for professional school, sometimes we even have a negative net worth and often we have a net worth less than our income! Much of the time, we're not even financially independent, meaning that if we stopped working we couldn't maintain our standard of living for long.

In my family's case, we've been in every single tax bracket at

one time or another. We know what it is like to live on \$20K because we've done it. For years. Same for \$50K and \$100K. We didn't grow up with a silver spoon in our mouths. Going to McDonalds was a treat, and it didn't happen often. Even once we started working, we weren't making a million a year. In my experience, that's pretty typical of most seven-figure earners.

What Do We Do For a Living?

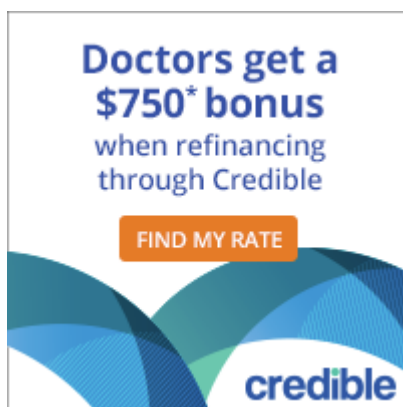
The typical seven-figure earner is a business owner, although if they are an employee they likely work in finance, in real estate, in the C-suite (CEO, COO, CFO), or as a particularly successful specialist physician, dental subspecialist, or attorney (probably a dual professional couple). We generally work far more than a forty hour work week and are no strangers to working evenings and weekends.

We Don't Expect To Be Here Forever

Just as we haven't been making this much money our entire careers, most of us don't expect to be here forever. It's a little bit like a professional athlete or artist. Yes, the income is high, but the career can be very short. The average career in the NFL is three years. Three years of the minimum player income of \$600,000 doesn't last very long, especially after-tax. Even a professional cyclist or other endurance athlete is washed up by forty. Other seven-figure earners may only be making "the big money" for 5 or 10 years. You get burned out. You're hitting retirement age. The business climate changes and the business becomes less profitable, fails, or is purchased. Something happens, and that high income goes away. So for many of us, there is very much a sense of "[make hay while the sun shines](#)" and trying to build real wealth as quickly as possible for when the income goes away.

We Pay a Lot of Taxes

We pay a lot of taxes. Our government pays for itself primarily with income taxes because we tax income, not wealth (except at death with the estate tax, which applies to even fewer people after the recent tax law change). Spending is somewhat taxed in most states, but for a high earner, that is relatively minor compared to the income tax. We understand and are okay with the fact that [our tax system is progressive](#), meaning the more income you have, not only the more absolute money you pay, but the higher percentage of your income you pay. We get frustrated that many Americans don't understand how the tax system really works. Far too many people think they pay a lot in taxes because they see the difference between their gross pay and what actually hits their paycheck. They ignore that many (sometimes most) of those deductions are for retirement plans, health insurance, other benefits, and payroll taxes (which pay for their retirement and healthcare as well.) Plus most people have more withheld than they owe, that's why they get a tax refund.



[Mitt Romney](#) famously pointed out that 47% of Americans don't actually pay federal income taxes, and seven-figure earners are acutely aware of that fact and often resent it a bit. It isn't that we think low earners need to pay the same percentage of their income that we pay. We're perfectly fine with a progressive income tax code. It's just that we think everyone ought to pay SOMETHING toward the government

functions that the income tax pays for- defense, national parks, roads etc.

There is this idea out there that high earners aren't paying their fair share because they know (or can afford to hire someone who knows) all the tax loopholes. The truth of the matter is that we're phased out of most of the loopholes. In fact, taxes get pretty simple at this level of income. If there is a phaseout of a deduction or a credit, we're phased out. There's no fussing around trying to stay out of the next bracket, because we're in the top bracket, and well into it. In Utah, our itemized deductions are completely phased out. That's right, our charitable contributions, state income tax bill, mortgage interest, and property taxes don't reduce our state tax bill at all. Now, are there some other "loopholes" that some of us can take advantage of? Sure. Things like carried interest and some of the real estate related tax breaks. But most of us aren't using those. And many lower earner (particularly business owners) can get the same advantages. The rules are what they are, and learning to use them to your best, legal advantage is a good thing. As Judge Learned Hand famously said,

"Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one's taxes."

If Congress doesn't want high earners to do the carried interest thing or use a [Backdoor Roth IRA](#) or be able to do [1031 exchanges](#), it has the power to change those laws. But you can't fault those who take advantage of the law as written.

In our case, we paid 32% of our gross income in federal income, payroll, and state income taxes for 2016. About 1/3. That is dramatically more (by both percentage and absolute amount) than we paid when we had a five-figure income. In

fact, there was one year as an attending physician when that figure was as low as 4%. (Join the military and get deployed if you're interested in getting your effective tax rate that low.) But it was routinely in the 15% range. It is now more than double that.

Our marginal tax rate is 46% (should go down by 3-4% starting in 2018). If we earn one more dollar, 46% of it goes to taxes. Some reasonable questions to ask yourself when presented with that sort of data is, "How much is enough?" How much of the money I make by working should go to pay for functions that we all use? What is the highest an effective tax rate should be? What is the highest a marginal tax rate should be? Is 1/3 enough? Is 1/2 enough? What is the lowest an effective tax rate should be? What is the lowest a marginal tax rate should be? These are political questions (meaning ones that reasonable people can disagree on) not mathematical ones, but they are questions that seven-figure earners wish lower earners would at least consider a little more often because it really does have an effect on how much work we do, what kind of work we do, and as business owners, how many jobs we can and do create.

We recognize that we pay a huge percentage of the overall tax burden for the country. We're not necessarily looking for a tax cut, but an occasional "Thank You" for what we're paying (and the jobs and valuable products and services created by our businesses) and a little less vilification would go a long way. We recognize that our tax burden is a first world problem, and one that we're glad to have. We know that the only thing worse than paying taxes is not having to pay taxes.

We Could Spend a Lot, But Often

Don't

You might assume that someone that makes a million bucks a year spends a majority of that. That's probably not true. A large chunk of it goes to taxes (32% in our case.) Another large chunk is saved if we're wise, since we're probably HENRYs trying to make hay while the sun shines. Typically someone making a million a year is going to be spending less than half of that. In our case, [we spend about \\$150K a year](#), and that includes the years we buy a car, boat, or major home remodel. Surprised? You shouldn't be. It's more common than you realize. Don't get me wrong, \$150K is a ton of money. It's nearly twice what WCI Network partner [Physician on FIRE](#) spends and 5 times as much as [Mr. Money Mustache spends](#). Given that we don't have any [debt payments](#), it really goes a long way. But it's an amount that could be spent by someone earning the average physician income. We live like doctors, not movie stars.

We Still Have Financial Concerns

We don't worry about many of the things that low earners worry about. Going to the hospital isn't going to bankrupt us. We're not worried about putting food on the table or clothes on the backs of our kids. But we do have plenty of financial worries. Many of those worries are the same ones lower earners have and the same ones we had before we had a seven-figure income.

College

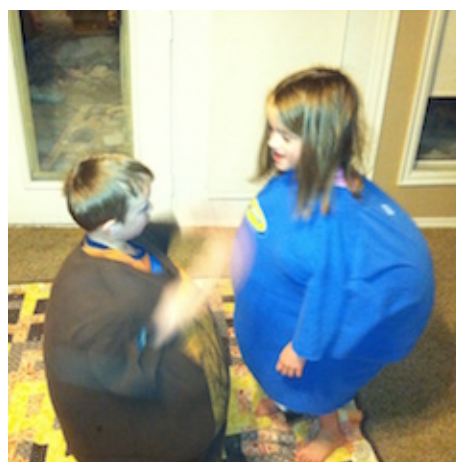
Believe it or not, we worry about paying for college for our children. We know that the income tax code is [not the only progressive aspect of our society](#). College is also quite progressive. [Our children won't qualify for loans](#), much less grants or need-based scholarships. Some of the best schools in the country are free to the children of lower earners, but we'll be expected to pay full freight. And that cost may be as

much as 2 years of our net income if we have multiple children. College is all on us and our children. We either need to save the cost up in advance, or keep working to cash flow it until they're done.

Income Loss

We worry about income loss. We know that seven figure incomes are pretty precarious. If you lose a job that pays \$30,000 a year, you can probably go out tomorrow and get a new one. But how many jobs are out there paying seven figures? Not very many. And how many more great business ideas do we have? Maybe none, much less the time to start over and grow them to seven figures. We know that sheer luck and privilege likely played some part (again reasonable people can disagree on the percentage) in growing our income this high. The business cycle is precarious, and even businesses that were once thought to be unassailable go bankrupt all the time. This is particularly an issue if we're a HENRY due to just recently acquiring this income or if we overspend and haven't built much wealth yet.

Our Children



Now, THIS is seven-figure entertainment.

We worry about spoiling our children. We didn't grow up with these kinds of resources available to us. Remember most

millionaires are first-generation rich. We want to give them the opportunities that our parents couldn't give us, but it makes us sad (and mad) when they may not seem to appreciate it. We worry about what they are going to do with their lives, knowing the likelihood that their income will be anything like ours is fairly low. We worry about the consequences of leaving them a small (or no) inheritance. We worry about the consequences of leaving them a large one. We worry about whether we should have them in a private school. It wasn't even an option when we made less, but what if they're missing out on some advantage because of it? We want them to be in a safe neighborhood with good schools, but we also want them exposed to a broad, diverse portion of society. We struggle to find that balance.

Cash Flow

We worry about cash flow. Screwing up your monthly budget when you're making and spending \$5K a month is relatively hard to do, and the consequences are relatively minor. But if we do a poor estimate of how much we're going to owe in taxes this year, we may be hit by an unexpected \$200,000 bill next April, including tens of thousands in penalties and interest. Making sure the money is in the right place when it needs to be there is more than a trivial concern, and one we rarely had with a lower income. As a result, we tend to carry more of our money in cash. That might be just sitting in our checking account, savings account, or brokerage sweep account earning little and causing a drag on our investment returns. Managing money is work, and just like at most jobs your reward for doing it well is even more work. Investing gets a lot more complicated than just putting your 401(k) on auto-pilot. Budgeting on a highly variable income (as seven-figure incomes usually are) is tricky. Is it a great problem to have? Sure, and we're thankful to have it. But to pretend it doesn't create challenges is ignoring reality.

Giving Well

We worry about [giving money](#). Just like not all lower earners are charitable, not all higher earners are charitable. But many are. The same qualities that led them to be successful in business, their profession, and their career lead them to want to help others. When you're only giving a few hundred bucks a year to charity, the consequences of doing a poor job aren't that big of a deal. When you are giving a few hundred thousand a year, they become much more acute. If you give in the wrong way, people can lose jobs or be incentivized to do things they shouldn't do. Picking the right causes to support and doing it in the right way really does matter. It turns out that just like earning, saving, and spending money is work, so is giving well. We're proud that 2017 was the first year we [gave away more money than we spent](#) and hope that trend will continue for many years to come. But we certainly want that money to do more good than harm!

Legacy

We worry about our legacy. If we are financially independent, what will we do with the rest of our lives that matters? Can we still muster the motivation to turn off Netflix, get off the couch, and go to work? What will happen to our business or farm or property when we go? Will the wealth we leave for heirs be squandered in one generation or three? Sure, it's not the same as worrying about how to pay for our prescriptions or our kids' piano lessons, but it is a worry nonetheless.

Liability



Mo' Money, Mo' Problems. This actually wasn't a big change for me. As a physician, everyone already assumed we had deep pockets long before we ever did. But the wealthy do have more to lose, especially since they're much more likely to have a significant portion of their assets in non-asset protected investment accounts.

What do you think? Did you find any of this surprising? Why do you think that is? Does your household have a seven-figure income? What do you do for a living? What does your lifestyle look like? What are your financial concerns? Comment below!

[Note: Given the sensitivity of this topic, for this particular post, we're going to have a stricter comment moderation policy than usual. Be extremely careful how you write your comment lest you find it has disappeared and your time and effort was wasted. Personal attacks and inflammatory comments won't be tolerated. If you don't have anything constructive to say, don't say anything at all.]