Money Market Accounts are Bad For Your Wealth

Most people we work with are trying to either increase their net worth each year or create enough income to fund their lifestyle without decreasing their net worth. The reality is almost everyone needs to increase their net worth just to maintain their current buying power. In 1976 my parents gave me 55 cents each day for lunch at school. 40 years later I gave my son $5.50 for lunch at school.

Imagine if 20 years into your retirement, prices were double or even triple what they were when you first retired. If your strategy was to simply create enough income to live without touching your principal, your lifestyle will eventually need to be slashed by 50% to 60% without touching your principal.

If your current investment strategy includes a good amount of short-term treasuries and money market, you are certainly not growing your wealth, in fact you may not even be breaking even. Getting 5% in a money market account may seem like a very attractive proposition. Money market accounts have no investment risk, no interest rate risk, and are fully liquid. However, they produce 100% taxable interest income.

If you are in the top tax bracket you are paying 37% of the gains in taxes. If the money market is in your IRA, you or your family may eventually pay up to 39.6% starting in 2026. If you or your children live in a state with state income taxes, you could be paying an additional 5-10% in state income taxes. Even at 37%, a 5% taxable yield nets only 3.15% after taxes.

According to the last CPI figures, inflation was 3.5% over the last 12 months. Although money market seems like a good deal, it is a net loser to inflation. When inflation drops so will money market rates. Therefore, if you are trying to beat inflation and grow your buying power, you must invest in other assets. Private credit funds and private first position mortgages are yielding over 10%. For more conservative investors annuities yield 6-6.5%.