

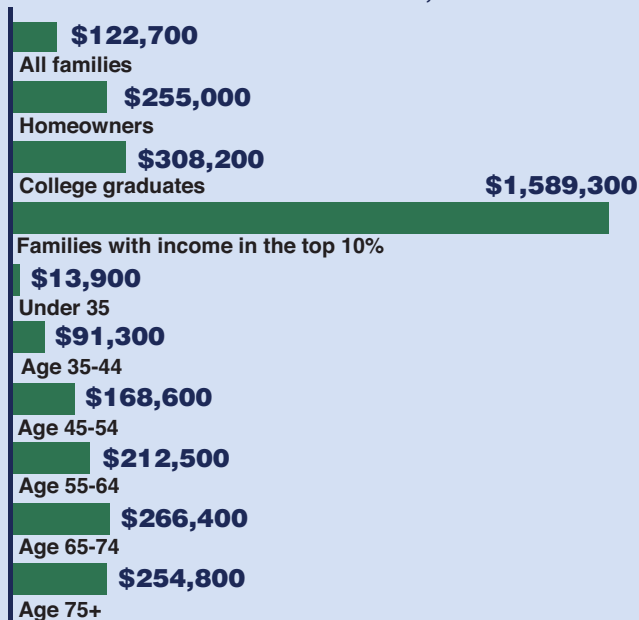
## Are You a HENRY? Consider These Wealth-Building Strategies

HENRY is a catchy acronym for “high earner, not rich yet.” It describes a demographic made up of young and often highly educated professionals with substantial incomes but little or no savings. HENRYs generally have enviable career prospects, but many of them feel financially stretched or may even live paycheck to paycheck for years, especially if they are working in cities with high living costs and/or facing large student loan payments.

If this sounds like you, it may be time to shed your HENRY status for good and focus on growing wealth—even if it means making some temporary sacrifices. One simple metric that can be used to gauge your financial standing is your net worth, which is the total of your assets (what you own) minus your liabilities (what you owe).

The net worth of U.S. families varies greatly depending on housing status, education, and income level. But it also takes time to build wealth, so there are significant differences by age.

### Median net worth, 2019



Source: Federal Reserve, 2021



### Pay Attention to Your Spending

It's virtually impossible to increase your net worth if you don't live within your means. After studying long hours and working your way into a good-paying job, you may feel that you deserve to spend some money on fashionable clothes, the latest smartphone, a night on the town, or a relaxing vacation. However, if you can't pay for most of your splurges without relying on credit—or wiping out your savings—then you may need to rein in your lifestyle. Budgeting software and/or smartphone apps can help you analyze your spending patterns and track your financial progress.

### Utilize a Workplace Retirement Plan

Making regular pre-tax contributions to a traditional 401(k) plan is a no-nonsense way to accumulate retirement assets, and it helps reduce your taxable income by the same amount. Experts recommend saving at least 10% of your income for future needs, but if that's not possible right away, start by contributing 3% to 6% of your salary to your retirement plan and elect to escalate your contribution level by 1% each year until you reach your target (or the contribution limit). The maximum you can contribute to a 401(k) plan in 2022 is \$20,500 (\$27,000 if you are age 50 or older).

Many companies will match part of employee contributions, and free money is a great reason to save at least enough to receive a full company match and any available profit sharing. Some plans may require that you remain employed by the company for a certain amount of time before you can keep the matching funds.

### Assess Your Housing Situation

Paying rent indefinitely may do little to improve your financial situation. Buying a home with a fixed-rate mortgage could help stabilize your housing costs, and you can build equity in the property over time as your loan balance is paid off — especially if the value appreciates. A home purchase may also afford tax advantages, but only if you itemize rather than claim the standard deduction on your tax return. Interest paid on up to \$750,000 of mortgage loan debt is deductible, as are the property taxes, subject to a \$10,000 cap on state and local property taxes.

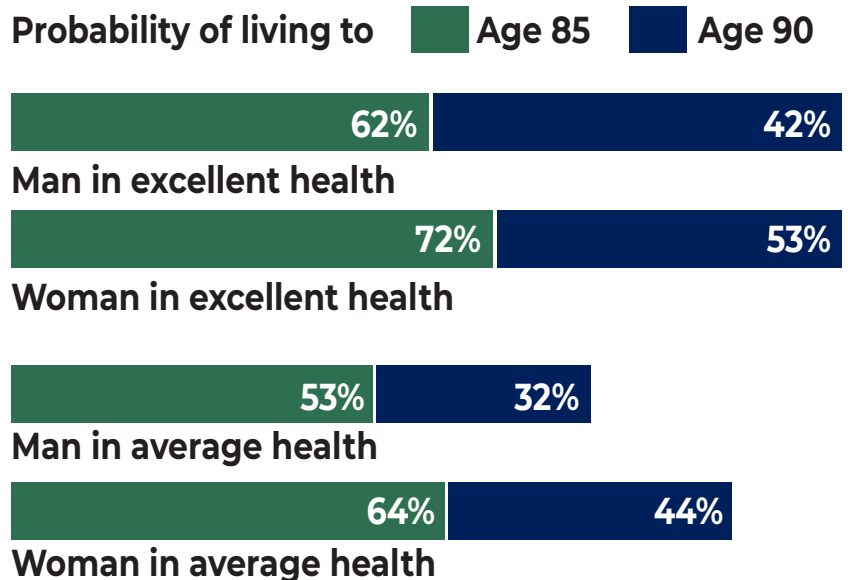
Homeownership is a worthwhile financial goal if you plan to stay put for at least several years. And in many places, owning a home can be less expensive than renting, thanks to low interest rates. But there could be hurdles to overcome, including a hot real estate market, high prices, lingering student debt, and the large chunk of money required for a down payment.

When shopping for a home, resist the temptation to buy more house than you can afford, even if the bank says you can. And don't forget to factor property taxes, insurance, and potential maintenance costs into your buying decisions and household budget.



## The Health/Wealth Conundrum

For those who are healthy, the odds are in favor of a long retirement. And because women live longer than men, on average, they may face higher lifetime health care costs and greater risk of outliving their savings.



Estimates are based on a 65-year-old person who retired in 2021.  
Source: Society of Actuaries, 2021

# Building Blocks for Financing College with Less Debt



Financing a college education with the least amount of debt involves putting together a variety of resources in the most favorable way for your family. It requires planning, savings discipline, an understanding of financial aid, smart college research, and good decision making at college time.

## Your College Fund

Your savings are the cornerstone of any successful college financing plan. It's helpful to think of your college savings as a down payment on the full cost, similar to a down payment on a home. Then at college time you can supplement your savings with other available resources.

Setting aside money for college over many years takes discipline, and in many cases sacrifice, including lifestyle changes. Every family's situation is different. But if you save regularly over time, you might be surprised at how much you could accumulate in your college fund.

### A College Fund Takes Shape

Monthly Investment	5 Years	10 Years	15 Years
\$100	\$6,977	\$16,388	\$29,082
\$300	\$20,931	\$49,164	\$87,246
\$500	\$34,885	\$81,940	\$145,409

Assumes a 6% average annual after-tax return. This hypothetical example of mathematical principles is used for illustrative purposes only and does not reflect the actual performance of any investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investing strategy will be successful.

## Financial Aid

Financial aid is the next piece of the puzzle. It's a broad term that can mean a lot of things, with concepts that are often used interchangeably. At its core, financial aid is money to help pay for college: loans, grants, scholarships, and work study. Your overall goal is to get the most amount of grants and scholarships (grant aid) and the least amount of loans. Colleges are the largest source of grant aid, with annual need-based and/or merit-based grant awards that can be in the tens of thousands of dollars. By contrast, the federal government's two main grants, the Pell Grant and the Supplemental Educational Opportunity Grant, are generally smaller amounts and reserved for students with the greatest financial need.

To help find colleges with the most generous grant aid, use a net price calculator, which is available on every college website. A net price calculator provides an estimate of how much grant aid a student might expect based on his or her financial information and academic profile. By completing a net price calculator for several colleges, you can compare what your out-of-pocket cost (net price) might be at different schools and rank colleges based on affordability.

The federal government's main contribution to the world of financial aid is in the form of student loans. All students, regardless of financial need, are eligible for federal student loans.

## Additional Funding Sources

Other potential resources at college time might help reduce the overall amount you'll need to borrow: what you can contribute from current income during the college years; your child's earnings from a school or summer job; education tax credits, which could be worth up to \$2,500 per year; financial help from grandparents or other relatives; and scholarships from civic, private, or nonprofit groups.

On the cost-cutting side, your child might consider graduating in less than four years; attending community college for two years and then transferring to a four-year college; becoming a resident assistant to get free or discounted room and board; living at home for a semester or two; exploring all in-state public college options; and deferring enrollment for a year to earn money and take advantage of any employer educational assistance.

After taking everything into account — the amount of your college fund, the grant aid your child might receive at specific colleges, the amount of money you and your child can contribute from current income during the college years, and the availability of other resources and cost-cutting measures — you can determine how much borrowing would be required for specific colleges and make an informed choice.

Borrowing money to pay for college can easily spiral out of control. Make sure your child understands what the monthly payment will be for different loan amounts over a 10-year repayment term. If the numbers look daunting, don't be afraid to say "no" to certain colleges. Most teenagers are not financially experienced enough to fully understand the negative consequences of extreme borrowing, so it's up to parents to help eliminate options that aren't financially viable.

# Four Basic Principles of Financial Literacy

It is widely recognized that financial literacy impacts a person's overall economic success. In fact, studies have shown that individuals who are exposed to economic and financial education at an early age are more likely to exhibit positive financial behaviors when they are older (e.g., maintaining high credit scores, accumulating wealth). As a result, many states are requiring high school students to take a course in either economics or personal finance before they graduate.<sup>1</sup>



Whether you are just starting out and beginning to manage your own finances or simply want to stay on top of your current financial situation, it's important to always keep these basic principles of financial literacy in mind.

- 1. Create a budget and stick with it.** A budget helps you stay on track with your finances. Start by identifying your income and expenses. Next, compare the two totals to make sure you are spending less than you earn. Hopefully, your budget is still on the right track. If you find that your expenses outweigh your income, you'll need to make some adjustments. Finally, while straying from your budget from time to time is normal, once you have a solid budget in place it's important to try to stick with it.
- 2. Set financial goals.** Setting goals is an important part of life, particularly when it comes to your finances. Short-term goals may include saving for a new car or building an emergency fund, while long-term goals may take more time to achieve (e.g., saving for a child's education or retirement). Over time, your personal or financial circumstances will most likely change, so you'll need to

be ready to make adjustments and re-prioritize your goals as needed.

- 1. Manage your credit and debt.** Reducing debt is part of any healthy financial plan. Whether you have student loan debt, an auto loan, and/or a credit-card balance, you'll want to pay it down as quickly as possible. Start by tracking all of your balances while being mindful of interest rates and hidden fees. Next, optimize your repayments by paying off any high-interest debt first and/or taking advantage of a debt consolidation/refinancing program.
- 2. Protect yourself.** When it comes to insurance coverage, are you adequately protected? Having the appropriate amount of insurance to help protect yourself against possible losses is an important part of any financial strategy. Your insurance needs will depend on your individual circumstances and can change over time. As a result, you'll want to make sure your coverage properly aligns with your income and family/personal circumstances.

<sup>1</sup> 2020 Survey of the States, Council for Economic Education

## Contact a Trust Department Staff Member at CBI Bank & Trust

As trusts can be complex and influenced by a number of factors, we like to start with a personal appointment where we get to know you and your needs. Contact any of the CBI Bank Trust Department staff members to arrange an appointment today.



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