FINANCE WITH THE FRIDAYS TREASURER

A Financial Literacy Newsletter

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Finance Fridays
is a publication of the N.C. Department of State Treasurer. Treasurer Brad Briner is focused on preserving, protecting and sustaining the state's pension and health care plans. Briner was most recently the Co-Chief Investment Officer for Willett Advisors and has held positions at Morgan Creek Capital, the UNC Management Company, ArcLight Capital and Goldman Sachs.



Bottom Line With Brad

HOUSE RICH AND CASH POOR

Last week, I went into a local coffee shop in desperate need of a midday jolt of caffeine. Just as I was about to place my order, I was told their credit card machine was down so I would need to pay in cash. As I don't generally carry much, if any, cash, I knew the double espresso I'd been thinking about just wasn't going to happen. It wasn't a great start to a long afternoon of meetings.

We all run into situations like this from time to time, and my coffee example didn't really matter much to my life (though it was a tough afternoon!). But in personal finance the fact that sometimes you have the money to buy something, but can't because your money isn't immediately accessible, is important and is called "liquidity." One of the expressions you sometimes hear about liquidity (or being liquid) is "house rich and cash poor." This refers to people who own nice houses but have no extra money for furniture, a car or the other necessities of life. It's not the biggest problem out there, but it is a problem.



The World Series just ended, and baseball is front of mind, so a related item to liquidity is Shohei Ohtani's most recent contract. For those baseball fans out there, you'll know he signed the largest contract in the history of baseball in 2024 (since exceeded by Juan Soto) – $700 million over 10 years. While that's certainly worth noting, what is interesting is that he deferred 97% of his payments for over 10 years. So, while Ohtani is undoubtedly rich by any standard, depending on how he chooses to spend his money in the coming years, he could end up short of cash. A "first world problem" for sure, but a potential problem nonetheless. If you are interested in more details about this contract, the Poole Business school team at N.C. State wrote an interesting article about it last year (https://poole.ncsu.edu/thought-leadership/article/inside-shoehei-ohtanis-unusual-contract/).

For those of us closer to average in compensation, which is just about everyone, the lesson is simpler – building wealth and having access to that wealth are related, but different, things. And we need to pay attention to both. Most of the guidance out there suggests up to three months of income in a rainy-day fund once you are in your working career. But starting with whatever you can save today and working it up slowly to at least $500 over time is a good goal to get going. Keep that money accessible in a checking account or savings account at a bank – and even some in cash, just in case. It doesn't really do you any good for this purpose if you invest it in either illiquid investments like real estate, or volatile assets like stocks or crypto.



Liquidity is an issue you will face for your entire lifetime — and you will notice we have added a new, recurring section to this newsletter aimed at folks planning for or starting out in retirement called *Golden Guidance*. We want to the thank the N.C. Division of Aging for partnering with us on this new monthly article.

For all of us, being sure that you can meet essential expenses when things go wrong is an important part of financial well-being, and a key but underappreciated way to have an even happier life. I certainly would have had a happier day with some rainy-day cash in my wallet at the coffee shop!

Homeownership and the Hidden Trap

How to Stay Financially Flexible





By Mark A. Johnson, Ph.D.
Faculty Fellow in Investments and Portfolio Management; Teaching Professor
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Homeownership often symbolizes success and security. Yet sometimes that dream can quietly become a financial strain. The phrase “house rich and cash poor” describes a situation where someone owns a valuable home but struggles to manage monthly expenses, save for the future or enjoy life comfortably.

Being “house rich and cash poor” does not mean you made a bad decision in buying your home. It simply means that too much of your wealth is tied up in an asset that does not generate cash flow. In today’s world of higher home prices, interest rates and living costs, it is easier than ever for families to be in this position without realizing it.

What It Means to Be “House Rich and Cash Poor”

Imagine a family who purchased a $350,000 home with a 20% down payment. On paper, they appear financially strong with $70,000 in equity. However, their monthly mortgage, insurance, property taxes, and utilities could easily reach $3,000. After adding groceries, car payments, child care, and other essentials, there may be very little room left to save or invest.



They have a nice home, but their budget may be stretched thin. If an unexpected expense or job change occurs, they would have very little flexibility. Although their balance sheet shows a solid asset in their home, their monthly cash flow tells a different story. This is what it means to be house rich and cash poor. The challenge is

not owning a nice home, but keeping housing costs from dominating the budget to the point that they limit other important financial goals.

Budgeting and The Balancing Act

Avoiding this trap begins with clear budgeting. Budgeting does not need to be complicated or restrictive. It is simply a way to align your spending with your priorities. A simple starting framework is the 50/30/20 rule:

50 percent of your after-tax income goes toward needs such as housing, food, utilities, and transportation

30 percent goes toward wants such as dining out or entertainment

20 percent goes toward savings, debt repayment, and investments



Within this framework, housing costs including mortgage, taxes and insurance should ideally stay below 30 to 35% of your income. Once it rises above that level, other parts of the budget can begin to get squeezed. Families can sometimes stretch for a more expensive home because of amenities, school districts, or emotions. But financial comfort does not come from how nice a house is, but from the flexibility that comes with healthy savings/investments and low stress.

Building an Emergency Cushion

Every household should maintain an emergency fund. Life is full of surprises. Roofs leak, cars break down and jobs can change unexpectedly. Having three to six months of essential expenses in a high-yield savings account provides protection and peace of mind. This fund prevents small setbacks from turning into financial crises. It also helps you avoid using credit cards or high-interest loans when something unexpected happens. An emergency fund is one of the simplest yet most powerful tools for financial security.

Investing Beyond the Home

Owning a home can be an important part of long-term wealth, but it should not be the only investment you make. True financial strength comes from diversification and growth across multiple areas. If most of your net worth is tied up in home equity, your money is not compounding as effectively as it could. Even modest, consistent investments in low-cost index funds or exchange-traded funds can lead to significant long-term growth. For example, investing $300 per month at a 7% annual return can grow to approximately $150,000 in 20 years. That growth happens quietly in the background while you focus on your career, having fun and living life. Make a habit of contributing regularly to retirement accounts such as a 401(k) or IRA. This balance

between homeownership and investing builds wealth in multiple ways rather than relying solely on the value of your property.

Family Conversations About Money

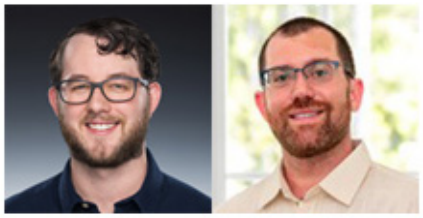
Budgeting and investing work best when everyone in the household understands the goals and trade-offs. Families should talk openly about money, viewing it not as a source of stress but as a shared responsibility. Setting aside time each month to review income, expenses and progress toward savings goals helps keep everyone on the same page. Celebrate milestones such as paying off a loan or reaching a savings target. When children see thoughtful financial discussions at home, they are more likely to develop strong habits as adults. Money should be a normal topic of conversation, not a taboo one.



The Bigger Picture

A home can be a wonderful source of pride and stability, but it should fit comfortably within your overall financial plan. Being house rich and cash poor can create unnecessary pressure and limit flexibility. The real goal is balance and having a home that meets your needs while maintaining enough liquidity and investments to live comfortably. Thoughtful budgeting and planning help ensure your housing expenses leave room for saving, investing, and enjoying life.





By Ian Bloom, CFP®, RLP®
Open World Financial Life Planning
and Michael Whitman, MBA, CFP®
Millenium Planning Group

Financial planners like ourselves find that it's not "if" when it comes to emergencies, it's "when." This means having all your assets in a home and being cash poor could be a problem. In a time where costs are rising it can feel impossible to build up a substantial savings account. Yet, those rising costs make it even more important to do so. Emergency funds are one of the fundamental building blocks of a great financial plan. Any good financial plan can fall apart if you find yourself unable to cover a major emergency.

We focus on helping our clients develop a financial plan that has a savings account for emergencies at the base of it. Once you have that, you can go on to building the more complex pieces of your plan like a good investment strategy and a sound estate plan. In order to build a good emergency fund, there are a similar series of steps everyone should take:



1) Analyze your own cash flow. How much do you earn every month? Keep a record of what your average pay stub looks like so that you know what to expect in income. How much do you spend every month? Having this number lets you know what you can need to accumulate to have a good amount of cash savings. The rule of thumb is six months of expenses if one person is working and three months if two people are working. Knowing what you earn and what you spend also lets you know how much you can save each month, as you can save whatever is left over.

Quick tip: If you are struggling with getting a number for your income or expenses each month, there are a ton of apps that do just that! We often use these with clients to reflect on spending and catch forgotten subscriptions. A lot of them will even notify you if you spend more than you are expecting to in a given month.



2) Open the right account. For some this means opening an account with a better interest rate. Some banks offer High-Yield savings accounts with rates of return above 3%. In a lot of cases, it may be best to open this account at a bank you are not using as your primary bank. That way you will not be tempted to spend the money on everyday purchases. Out of sight, out of mind.

Quick tip: A lot of digital-only banks offer stronger savings rates than banks with big offices. These can be useful for your emergency fund as they can often receive quick transfers from your checking account at a local bank and you can transfer money back to that account when you need it!



3) Automate your savings. If you know you can save an extra $200 per month, set that up as an automatic transfer from your checking account to your savings. While this will not give you a substantial emergency fund overnight, it will give you one soon! As we referenced above, a good rule of thumb is to let this money accumulate until you have three months of expenses for a family with two working adults. Increase that to six months of expenses if only one person is working. This

should allow you to have money to find a new source of income if you lose yours.

Quick tip: Using the automation tools from your bank's website for these transfers is one approach to saving. Another is to contact your employer's HR department or use your payroll portal to have part of your paycheck deposited directly into your savings account! Just make sure enough goes to your checking account to pay for your bills.



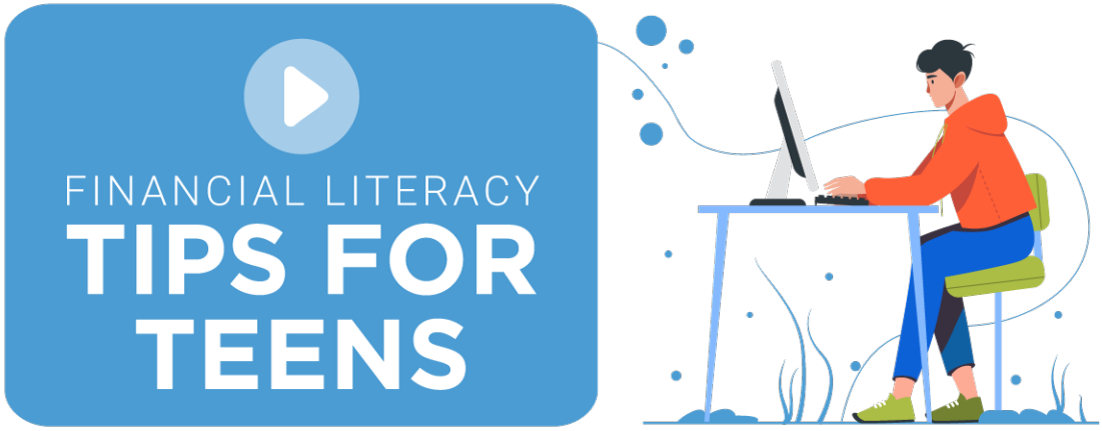
4) Avoid investing these funds. You want to have this money around for emergencies. Sometimes emergencies and market drops happen at the same time. The last thing you want to do is pull money out of a down investment to pay for a new hot water heater or car repairs.

Quick tip: Check out last month's newsletter to learn about stocks, bonds, ETFs, and mutual funds.



5) Evaluate additional steps you can take. For some clients we find that having the emergency funds being under an advisor's watch can lead to less frivolous spending. For others we see them saving well and we actually need to tell them to invest more or spend more! It depends on your unique situation, but you will see how to improve the system you set up over time. Adapt your emergency fund to your unique situation.

Now you have the tools to go out and build your first emergency fund. Remember that it may take some time to accumulate this money, as you can only do it with what you have left over after the bills are paid. Progress happens by knowing what you can save each month, having the right account to save it into, automating those savings, and keeping the funds available for emergencies. Accumulating an emergency fund is a big step toward making your financial future more stable, and your future self will be very grateful you did it!





The **Hidden Risks** of Being **Asset-Rich** but **Cash-Poor** in **Retirement**



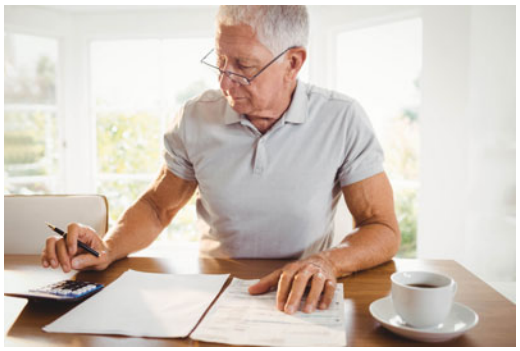
By Todd Calamita, CFP® , CDFA®
Calamita Wealth Management

North Carolina retirees discover an uncomfortable truth: Owning a valuable home doesn't guarantee financial security. You might have $300,000 in home equity but struggle to pay monthly bills.

This situation, known as being "house rich, cash poor," creates hidden risks that can derail even well-intentioned retirement plans.

The Liquidity Challenge

Think of your assets like different types of containers. Cash in your checking account is like water in a glass. It's immediately



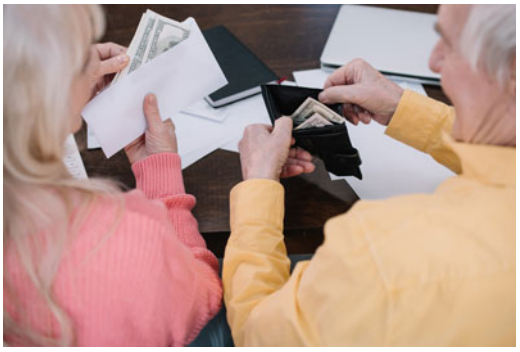
available when you need it. Your home's value, however, is more like water frozen in ice. It's valuable, but you can't drink it without significant time and effort to melt it first.

When retirees lack sufficient liquid assets, they face a dangerous squeeze. Monthly expenses don't pause while you figure out how to access your home's equity. Groceries, utilities, insurance premiums and prescription medications all demand immediate payment. Without readily available cash, you might find yourself relying on credit cards or contemplating a reverse mortgage. Both are expensive solutions that can compound your financial stress.

Building liquidity into your retirement plan can provide crucial flexibility when unexpected expenses arise.

When Income Streams Run Dry

Retirement fundamentally changes your relationship with money. For decades, you likely relied on a steady paycheck. In retirement, that predictable income disappears — replaced by a patchwork of Social Security, pensions and investment returns.



Retirees who depend too heavily on a single income source, whether it's Social Security alone or just their home's value, expose themselves to significant risk. Economic downturns can slash investment values. Health care costs can skyrocket unexpectedly. Inflation can erode the purchasing power of fixed pensions.

Smart retirement planning involves creating multiple income streams that don't all move in the same direction. This might include dividend-paying ETFs or mutual funds that provide regular payments, rental income from investment property or even part-time work.

Diversifying your retirement income helps protect against market volatility and ensures more stable cash flow throughout your golden years.



The Hidden Costs of Homeownership

Your mortgage might be paid off, but your home's expenses certainly aren't. Many retirees underestimate the ongoing costs

of maintaining their most valuable asset.

Setting aside 1-4% percent of your home's value annually for maintenance and repairs is a good rule of thumb.

For a $250,000 home, that means budgeting $2,500 to $10,000 each year for everything from roof repairs to HVAC replacements. When you're living on a fixed income, an $8,000 furnace replacement can devastate your budget if you haven't planned ahead.

Property taxes present another challenge. Unlike your locked-in mortgage payment, property taxes can increase over time as your home's assessed value rises or local tax rates change.

In some North Carolina counties, longtime homeowners have seen their property tax bills double or triple over a decade, creating unexpected strain on retirement budgets.

Home maintenance and repair costs often catch retirees off guard, representing one of the most underestimated expenses in retirement planning.

Building Financial Resilience

The solution isn't necessarily to sell your home and rent instead. Rather, it's about creating balance in your asset portfolio and planning proactively for the realities of retirement.



Start by honestly assessing your liquid assets versus your monthly expenses. If you're coming up short, consider strategies like downsizing to a less-expensive home, exploring rental income opportunities or gradually converting some illiquid assets into more-accessible forms.

And for those approaching retirement with significant assets but concerns about cash flow, working with a financial advisor who specializes in retirement planning , like me, can help create a comprehensive strategy. Professional guidance can be invaluable in developing sustainable income streams and managing the transition from accumulation to distribution of your assets.

The Path Forward

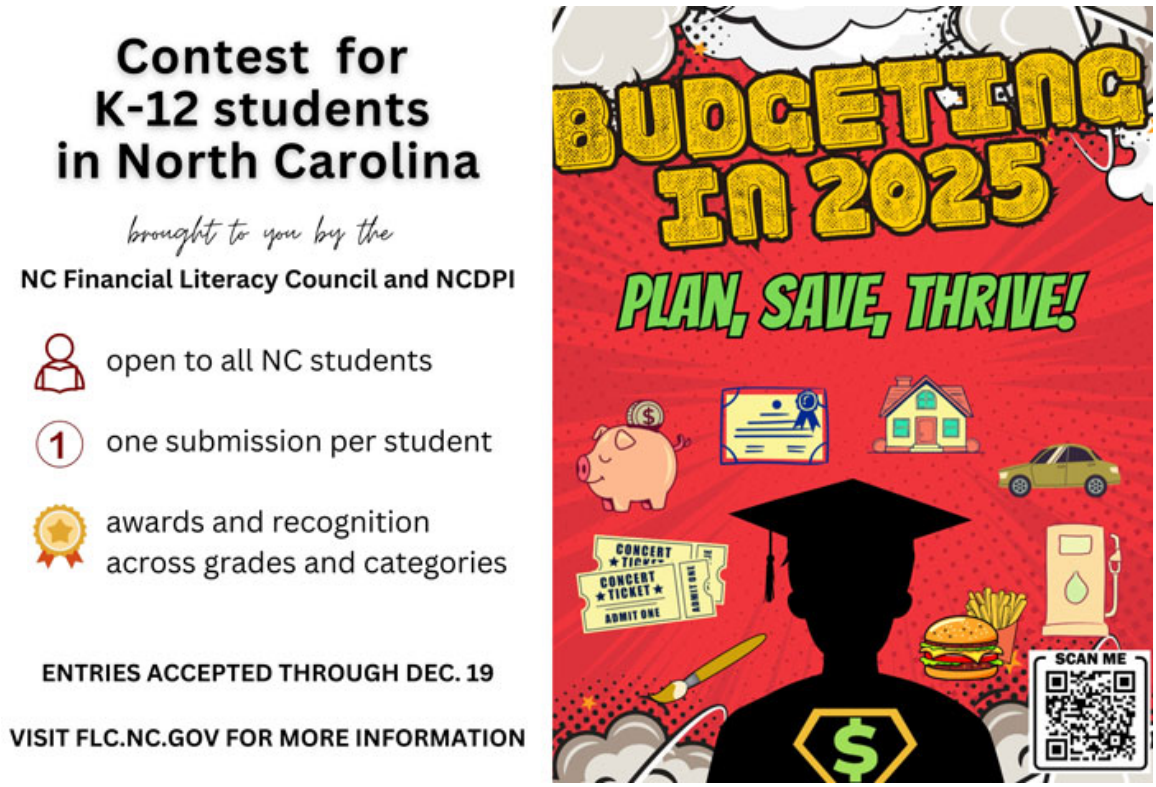
Remember that in retirement, flexibility becomes your greatest asset. Having cash available means you can take advantage of opportunities, weather unexpected storms, and maintain your independence without being forced into hasty financial decisions.

Retirement risk management should emphasize maintaining adequate liquidity while also diversifying income sources to weather various economic conditions.

Being asset rich doesn't have to mean being cash poor, but it requires intentional planning and honest assessment of your complete financial picture. By understanding these hidden risks now, you can take steps to ensure your valuable assets work for you, rather than against you, in retirement.

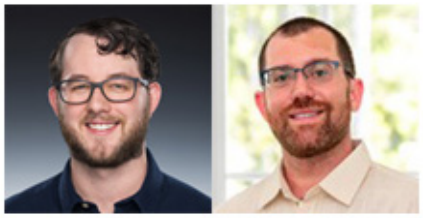
The goal isn't just to accumulate wealth. It's to create sustainable financial security that supports the retirement lifestyle you've worked so hard to achieve.

For more information on N.C.'s efforts on aging you can go here: [NC DHHS: Aging and Adult Services](#).





DEMYSTIFYING Transferring Assets



By Ian Bloom, CFP®, RLP®
Open World Financial Life Planning
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This newsletter has been talking a lot about liquidity. So while we're on the subject, let's demystify one of the basic concepts of owning any type of assets — proper titling.The unfortunate reality is that a lot of us have had experience with loss in our lives. The emotional toll of losing a loved one is often massive. This can be compounded by the formal process of closing an estate, whether it is large or small.

You may have been asked to name a beneficiary to a retirement account if you have one. By doing this simple set you are taking what could be a major hassle away for loved ones after you pass. By filling in that section of your account — you have eliminated the probate process and the named person(s) will get transferred your assets as soon as the financial institution receives formal notice of your death.

Types of Accounts



Retirement

The first and most recognizable category of accounts that have beneficiary designation are retirement accounts, as we alluded to above. 401(k), 403(b) and other employer-sponsored retirement plans often ask you to name a beneficiary when you sign up for them. It's important to name individuals here if you can, as someone inheriting a 401(k) account as a named beneficiary can get special withdrawal rights. It's good practice to review your beneficiary

designations around open enrollment time every year and make sure that the money is still going where you would want it to go if you passed away. Remember, these beneficiaries matter more than your will! Other accounts that can have these designations are IRAs, HSAs, and other special tax treatment accounts.



Personal

If you are opening an account just for yourself, you may want to see if the financial institution can call it a *TOD* or *POD* account. TOD stands for Transfer On Death and POD stands for Payable On Death. These accounts allow you to name someone just like the beneficiary designations on a retirement plan. Again, these accounts will move before the estate is settled and give your beneficiary(ies) access to the money sooner.



Joint

If you are opening the account for yourself and a partner, you may want to consider making sure it's a *JTWROS* account. This acronym stands for Joint Tenancy With Rights of Survivorship. If one of you passes away, the other maintains access to the account and becomes entitled to the full value. This skips over the account having to move through probate before your partner can utilize the cash. You can even add the TOD or POD to these accounts in case you both pass at the same time. This title also works for assets like homes and other property that you want your spouse to maintain ownership of if something happens to you.

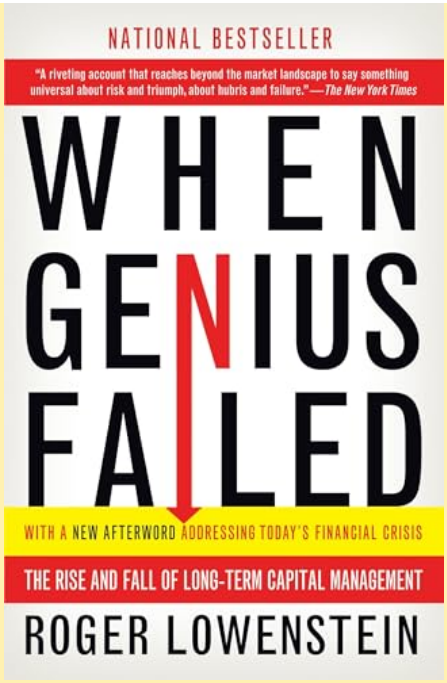
Summary

There are many more terms to understand in estate planning. Wills, Powers of Attorney, Trusts, and Living Wills are all important documents. That said, these basic steps you can take will minimize your family's reliance on those documents and keep the finances accessible in the unfortunate event of loss. Whether you are using these tips for yourself or helping another relative, such as a parent, with their estate plan these are good things to keep in mind.

Recommended Reading: When Genius Failed

Brad's recommended reading this month is "When Genius Failed" by Roger

Lowenstein. This is a cautionary account of a successful Wall Street trader who almost went broke (along with his clients) — and served as a prelude to the Wall Street crisis years later. You can buy the book here. Or you can borrow it from libraries like here.







For Teens:

What does it mean to be "house poor?"

- A. "House poor" is a term used to describe a person who can only afford rental homes and never own a home, while also having little to no money for daily living expenses.
- B. "House poor" is a term used to describe a person who spends most of their total income on homeownership but have little to no money for daily living expenses or savings.
- C. "House poor" is a term used to describe someone who owns a luxury car but can't afford to own a decent home.

Why is an emergency fund important?

- A. In case you or someone in your household go to the hospital.
- B. It's a backup in case of job loss or surprise expenses.
- C. It's a backup in case you forgot to pay the light bill.

If a college student spends all their money on a fancy off-campus apartment, but can't afford to buy groceries, that's similar to what?

- A. Every college student in America.
- B. Their parents being financially irresponsible.
- C. Being house rich/cash poor.

For Adults:

Antony owns his home outright but after retiring he is struggling to pay bills. His daughter suggests a reverse mortgage to access his equity. What is the main advantage of this idea?

- A. It eliminates all property taxes and maintenance costs.
- B. It allows the daughter to take over the home when Antony passes away.
- C. It allows him to borrow against his home's value to receive cash while still living in it.

Which financial habits could prevent someone from becoming "cash poor?"

- A. Never moving out of your parents' house.
- B. Live below your means, budget and save consistently.
- C. Build an emergency fund and pay off all debt with bank loans.

Why are many "house rich/cash poor" homeowners solvent but illiquid?

- A. Their net worth is high, but their money is tied up in non-liquid assets like property.
- B. Their net worth is low, but their money is tied up in non-liquid assets like property.
- C. Their net worth is high, but have outstanding bank leverage.

Click here for the answers.

Sources:
What Does It Mean To Be House Rich, Cash Poor?
https://www.financialsamurai.com/house-rich-cash-poor/
Understanding Reverse Mortgages: What To Know – Forbes Advisor
House Poor: What It Means, Steps to Avoid It

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Contact us with questions about financial literacy or suggestions for topics.

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