FINANCE WITH THE FRIDAYS TREASURER

A Financial Literacy Newsletter

Issue 12, March. 6, 2026 **NC Cash | NC ABLE**

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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

PATH DEPENDENCY

It's not the destination, it's the journey. We've all heard this life advice at some point or another, and it really is useful – in a world that is more focused every day on the next milestone, the next challenge and the next news cycle – appreciating what is going on along your path is essential.

This month we are focusing on how the twists and turns of your path can have profound implications for your destination. This is a concept called "path dependency," and to me it essentially means that every step you take in life reduces the possible number of destinations where you may end up. **And this is most often a very good thing**. Investing in yourself by getting a great education, working hard at whatever you are doing, following the law and having modest financial discipline are all examples of actions we each can take that limit our future destinations in very good ways by taking some pretty bad outcomes off the table.

Sometimes, those decisions are made for you by your parents. For me, it was my mother's willingness to take a menial job at a private school which allowed me to get a great early education at that school, rather than being stuck in the failing public school in my hometown in Texas. That decision by her fundamentally changed my path for the better!



Treasurer Briner and his mom

Early Steps:

Path dependency in building savings for a rainy day or retirement matters tremendously as well. Remember when we talked about compound interest? (Take a look back at our June issue on this topic.) It matters greatly how much you save for important things. But it matters when you save as well – the earlier you start, the more likely your path will lead to a destination that will be a great one. Time can be an ally.

Risks:

It matters in the risks you take, too. While we all ultimately only take one path through life, we still have to consider all the likely outcomes. Building a plan that allows you to still get to a good destination – even if there ends up being a pothole in your path – or a risk ends up becoming reality – is paramount. Saving for a rainy day after the rainy day has already come is not nearly as useful. Sure, it's possible it won't rain, but why put yourself on a path that depends on it not raining?

There are some more subtle aspects of path dependency, too. Particularly in your career – as you progress along that path, all that you have done professionally will hopefully help ensure that your journey doesn't go through a bad place. Building a reputation as a team player, sticking with a role through a tough time and resisting the temptation to jump to a new job after a short time, paying it forward with people who need some help and can't obviously repay the favor and many other things help determine your path in the future, so choose wisely… and hopefully all the thought you put in to ensuring your path doesn't veer too far away from your destination will end up being unnecessary. But it will be worth doing anyway!

DEMYSTIFYING

Understanding Bias

By: Department of State Treasurer Staff

Have you ever found yourself frozen in fear, or procrastinating on financial decisions

or retirement planning? You may know those are important steps to take, but insecurity about your abilities and anxiety of possibly making a mistake can lead to **financial inertia**.

If so, you could be experiencing **path dependency**. But to understand this term- first we need to demystify *bias in decision making*.



Anchoring bias — making decisions based on past choices or information when better alternatives, data and facts are available — can be counterproductive. Buying a house, a car, or even a gaming system based solely on existing information or past history could lead to a good outcome, but also could result in missing out on a terrific opportunity.



Status quo bias is another psychological aspect of path dependency. It's more comfortable to stay with the current circumstances out of fear that deviating could produce unwelcome changes.

Camelia Kuhnen, the Boyd White Harris Jr. Distinguished Professor of Finance, and Research Director of the Kenan Institute of Private Enterprise at UNC, is an expert in the growing field of neuroeconomics and its effects on financial decision making. Neuroeconomics attempts to understand how brain processes affect economic choices.

"The bottom line is that people who experience more adversity earlier in life (say, they grew up in a family with unstable incomes, or they have lived in an area with high unemployment) later on perceive the world or their economic opportunities through a pessimistic lens. This is because their brain gets conditioned to learn more from **bad news than from good news**, which leads to a pessimistic assessment of what is happening in the macroeconomy, not just in their own personal lives," Kuhnen told Finance Fridays.



"This has consequences: People who have experienced more adversity will be more pessimistic about the return to investing in equity markets and about the future of the economy (e.g., the national unemployment rate), and they don't make investments that would be good for them in the long run (e.g., investing in equities, buying a home)," she said.

More of Kuhnen's research is summarized in a review paper she published last year. As always, financial education is critical to overcoming the pitfalls of path dependency.

Why Your History Matters in Money

How Path Dependency Shapes Financial Behavior



By: Sara M. Lorenzen,
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Financial literacy often emphasizes present-day skills such as budgeting, saving, credit use and investing. Yet financial educators, financial coaches and others in financial services consistently observe a different reality. People rarely make financial decisions based only on current information. They rely on past experiences, often without realizing it.

This pattern is known as path dependency. The concept explains that a person's financial behaviors and outcomes are strongly shaped by earlier experiences, including family habits, childhood exposure to money and first financial decisions. Current income or access to resources certainly matters, but history often matters too.

Financial experiences also carry emotional weight. Stress, instability or conflict connected to money does not simply teach a lesson. It creates expectations about what your money will do in the future. Over time, those expectations guide behavior as much as knowledge does. The longer a pattern continues, the more familiar and automatic it becomes, which is why correcting unhelpful financial habits early can make a profound difference.

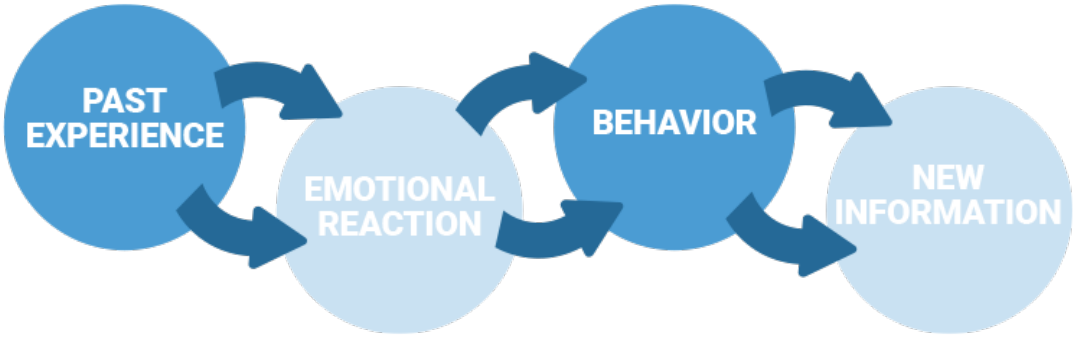
Long before individuals learn about interest rates or retirement accounts, they observe how money works in daily life. They may witness arguments about bills, see caregivers avoid financial institutions or experience periods when necessities feel uncertain. These early exposures shape beliefs about whether money is stable, risky or unpredictable. Those beliefs often follow them into adulthood.

Two individuals can attend the same financial workshop and hear identical advice. One opens a savings account immediately. The other delays for months. The difference is rarely motivation or intelligence. Instead, one action feels familiar while the other feels uncertain. Path dependency develops through repeated experiences rather than one major event. A smooth early banking

experience can build trust, while a stressful one can lead to avoidance. A manageable introduction to credit can build confidence, while debt during a crisis can create lasting hesitation.

> Instead, one action feels familiar while the other feels uncertain.

Over time, these repeated experiences form patterns that feel normal. Adults may not consciously decide how to react to financial situations. Instead, reactions happen automatically. Some people feel calm checking account balances, while others feel anxious. Some see investing as an opportunity, while others see it as a gamble. These responses reflect learned familiarity rather than purely logical analysis.



This also explains why information alone does not always change behavior. Traditional financial education assumes that knowledge leads directly to better decisions. In practice, past experiences shape emotional reaction, emotional reaction shapes behavior and behavior shapes how new information is interpreted. Without new experiences to replace old ones, knowledge may not translate into action.

Economists describe path dependency as producing a lock-in effect. Once a behavior becomes routine, changing it can feel uncomfortable even when better options exist. Many financial professionals hear some version of the same statement: “I know what I should do, but I cannot get myself to do it.” From the outside, avoiding accounts or delaying financial decisions may appear irrational. From the individual’s perspective, those choices feel predictable and therefore safer. The brain often prefers a familiar outcome over an uncertain improvement.

> “I know what I should do, but I cannot get myself to do it.”

The earlier individuals interrupt unhelpful patterns, the easier it is to redirect their

trajectory. A positive savings habit formed in young adulthood can influence decades of financial stability. A confident early credit decision can open doors for housing, employment, and opportunity. Early intervention builds momentum and reduces the strength of unproductive patterns before they become deeply ingrained.

At the same time, it is never too late to change directions. While early correction makes change easier, adults at any stage can create new financial paths. Changes rarely happen through dramatic overhauls. Instead, consistent small actions gradually replace old expectations. Brief, regular account check-ins can reduce anxiety. Neutral interactions with lenders can build familiarity. Small automatic savings transfers can build confidence before complex planning begins.

Every new positive experience weakens the hold of old patterns. Financial decisions are influenced not just by math or knowledge but by our history. The earlier we help individuals build healthy financial habits, the more momentum they gain. But no matter where someone starts, a new path can always begin with one small, intentional step.



The **Power** of the **First Paycheck**



By: Hillary Kestler,
North Carolina Bankers Association

In the world of economics, the concept of path dependency – put simply, the idea that the decisions we make today significantly limit or expand the choices available to us tomorrow – can create a "locked-in effect" that can be either a trap or a springboard for future financial independence.

Financial health isn't a destination you reach in your 40s, it is a momentum built in your teens and 20s. From the first dollar you earn for allowance, to your first official paycheck to your first investment, these early milestones dictate the trajectory of your economic life.

For most, financial independence begins with a first job. Whether it's mowing lawns, babysitting, lifeguarding or working retail, that first entry into the workforce is more than just the hourly wage. It is a laboratory for learning the value of time and the "cost" of spending.

> Early employment introduces the reality of taxes and the discipline of budgeting. Those who learn to save a portion of their first paycheck, even if only a small amount, establish a habit that often lasts a lifetime. This is where the path begins: you are either someone who spends what they have, or someone who pays themselves first. Perhaps no "first" is as



high stakes as your first credit card. Used correctly, it is a tool for building a robust credit score, which eventually unlocks lower interest rates for purchases like vehicles and houses. Used poorly, it creates a cycle of high-interest debt that can take a decade or more to escape.

The most significant advantage of youth is not energy or opportunity, it is time! Taking the "first step" into saving and investing early allows for the maximum impact of compound interest. Consider the difference between starting an investment account at 20 versus 30. Because of the way growth stacks upon itself, the 20-year-old can often contribute less total money over their lifetime yet end up with a significantly larger nest egg. Waiting even five years to start can "lock" you into a path where you must save twice as much just to catch up. If you can master the first step of saving and living on 90% of what you earn, you build a psychological muscle that protects you regardless of how much your income grows or shrinks in the future.



Early financial education is the best defense against budgeting and credit pitfalls. Fortunately, many banks in our communities are deeply invested in this mission. Financial institutions frequently partner with schools at all levels to provide guest speakers and curriculum. Organizations like Junior Achievement offer immersive experiences that simulate real-world financial choices, while the American Banking Association (ABA) provides a wealth of resources for parents and students to navigate the complexities of budgeting, fraud, credit lending and more. Furthermore, organizations like PBS, VISA, and the FDIC all offer curriculum and training about entrepreneurship, fraud prevention, smart spending and so much more. Along with banks of all sizes, there is a wide variety of digital platforms and modules that make financial literacy accessible to anyone with a smartphone. These resources help demystify everything from interest rates to identity theft.



Once you're ready to hit the workforce, the path to financial health isn't always linear, and it doesn't always require a four-year degree. There are numerous work-training programs designed to bridge the gap between unemployment and a stable career. Programs like BankWork$ are a prime example. This free program trains individuals for careers in the banking industry, providing not just vocational skills but also essential coaching on personal financial health. By training people to work within the financial system, these programs empower them to master their own finances simultaneously.

The danger of the "locked-in effect" is that bad early decisions, like defaulting on a loan or failing to save, create a narrow path where your only options are high-interest "predatory" loans (like paycheck loans) or a lack of emergency funds. Those are things we want to avoid as they can be detrimental to your future. However, the reverse is also true. By taking intentional first steps, utilizing community bank resources, engaging with programs offered in your community, and starting to invest in

yourself early, you create a path of financial options. You aren't just earning money; you are buying your future freedom.



The best time to start was yesterday; the second-best time is today. Whether you are a student, a young professional, or someone looking for a career change, remember that your next financial step is the one that determines where the road leads next.





The College Exception

Why We Abandon Math for Tradition



By: Jimmy Skinner
Founder and Financial Coach,
Wealth Wallaby

There is one type of path dependency that arguably doesn't get enough discussion or consideration. For many North Carolina families, the path to a four-year university isn't a calculated financial decision; it's a cultural inheritance. We follow it as the "natural" next step, often ignoring the warning signs of mounting debt. This is where the psychological trap of the **College Exception** takes hold.

Most of us wouldn't take out a high-interest, 10-year loan to fund a $50,000 luxury vacation. We understand that while memories are priceless, an "experience" doesn't provide a financial return that justifies decades of payments. Yet, for higher education, we suspend this logic. We bundle a four-year lifestyle and a career asset into one opaque loan, telling ourselves the normal rules of debt don't apply because it's "college."

Separating the Asset from the Experience

To break the cycle of path dependency, we must perform a *financial autopsy* on what exactly we are buying.

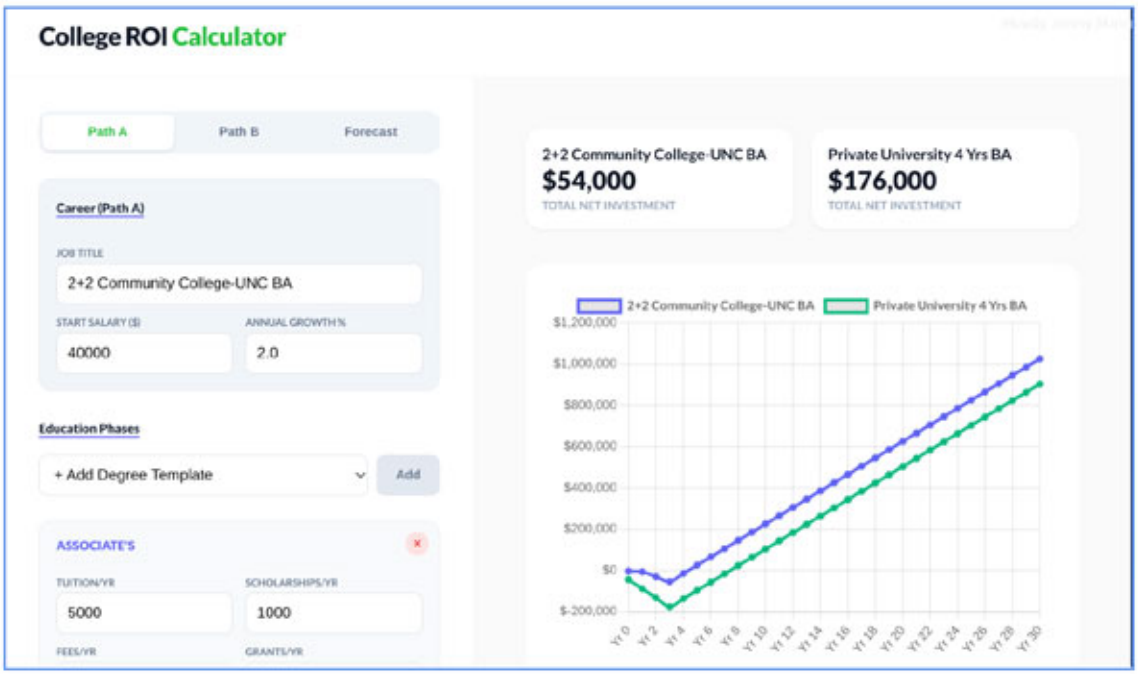


- **The Asset:** This is the accreditation — the degree, the specific technical skills and the professional network that actually increases your lifetime earning power.
- **The Experience:** This is the dorm life, the being away from home/your parents, the social prestige and the *Saturday in the stadium* culture.

Path dependency tricks us into thinking these two things are a packaged deal. But when you finance the experience with student loans, you are essentially taking out a mortgage for a piece of paper and a lot memories. To chart a new path, you have to ask: Am I choosing this school for the career outcome, or am I following a cultural script for a "traditional" four years before taking on adult responsibilities?

Visualizing The Path

To help families and students see the best value for their time and money, a College ROI Calculator can compare different educational paths side-by-side. The following example illustrates the financial difference between a public **2+2 public bachelor's degree path** and a **private bachelor's degree path**, assuming the same job and starting salary outcome:



Strategy 1: The Transfer Escape Hatch

The most effective way to separate the asset from the experience is to change the *where*. North Carolina's **Comprehensive Articulation Agreement (CAA)** is a state-mandated escape hatch that allows you to bypass the high-cost dorm life years while keeping the high-value asset at the end.

- **De-risk the Journey:** Complete your general education requirements at one of North Carolina's 58 community colleges for a fraction of the cost.
- **Junior Status Guarantee:** Under the CAA, if you complete your Associate degree with a 2.0 GPA and a grade of "C" or better in your transfer courses, you are guaranteed junior status at any of the 16 UNC System universities.
- **The Same Diploma:** Your final degree is identical to those of students who took the four-year college route. By starting at a community college, you've simply *hacked* the path to the same degree while bypassing tens of thousands in lifestyle-based debt.

Strategy 2: Overriding the Prestige Script

To break the cycle of path dependency, we need to stop using a high price tag as a shortcut for quality. North Carolina offers two specific ways to reclaim control of your financial track:

NC Promise (Price over Prestige): We often assume that an expensive university provides a better education. The NC Promise program at **Fayetteville State, Western Carolina, UNC Pembroke and Elizabeth City State** shatters this script by capping tuition at just **$500 per semester**. It allows you to obtain a high-quality university "asset" at a price that often eliminates the need for student loans entirely.

The NC 529 (Tax-Free Growth): The best way to break a cycle of debt-dependency is to start a cycle of savings-dependency. The NC 529 Plan allows North Carolinians to invest for future education expenses — for their children, grandchildren or even

themselves — in a way that grows **tax-free**. When the money is used for qualified education costs, you don't pay state or federal taxes on the earnings. It's a simple, powerful tool that turns the momentum in your favor before the first tuition bill ever arrives.

Choosing a New Path For Education

The $1.8 trillion student debt crisis is proof that the standard college path is broken. For decades, millions have followed the same script, assuming that massive debt was simply the price of entry into the middle class. But you don't have to stay on the paths that were laid before you were born.

By rejecting the College Exception and refusing to finance an expensive college lifestyle, you are doing more than just saving money — you are outmaneuvering a system that expects you to overpay. When you separate the **Asset** from the **Experience**, you stop being a passenger and start becoming the architect of your own financial life. Choose a path that ensures your degree serves as the floor for your future wealth, rather than a ceiling on your potential.



Changing Financial Direction at Any Age



By: Timothy C. Atkins,
White Oak Financial Specialists, Inc.

The prevailing narrative surrounding personal finance often feels like a race where the starting gun fires at age 22. We are told that if we haven't mastered compound interest by 30 or maximized a 401(k) by 40, the window of opportunity has slammed shut. This "all or nothing" mentality creates a dangerous byproduct: **financial inertia**. When people feel they have "missed the boat," they often stop rowing altogether.

However, the reality of wealth management is far more fluid. It is never "too late" to adjust spending patterns or pivot your strategy. Whether you are 55 or 75, the principles of financial agility

remain the same. Financial direction is not a fixed destination reached in youth; it is a series of navigational corrections that continue throughout a lifetime.



The Myth of the Fixed Path

Many individuals in or near retirement fall victim to the "sunk cost" fallacy regarding their lifestyle. They believe that because they have lived a certain way for decades, they must continue to do so, regardless of whether it still serves their goals. This is where the concept of **path dependency** becomes vital.

In economics, path dependency suggests that our current decisions are limited by the decisions we made in the past. While it's true that you cannot change the savings rate of your 30s, path dependency works **forward** just as much as it works backward. Every decision made today creates a new trajectory for the next 10, 20 or 30 years. By choosing to reallocate assets or downsize a home today, you are essentially "resetting" your path. You aren't just managing the consequences of the past; you are actively architecting the possibilities of the future.

The Power of Tactical Adjustments

When you are younger, your greatest asset is time. When you are older, your greatest asset is often **clarity and equity**. Small changes at a later stage can have a disproportionately large impact because they are often more surgical than the broad strokes used in youth.

- **Strategic Downsizing:** Moving from a large family home to a more efficient space does more than just lower a mortgage payment. It unlocks stagnant home equity that can be moved into income-generating investments, while simultaneously slashing "phantom costs" like maintenance, taxes and insurance.
- **Asset Reallocation:** Many retirees maintain a portfolio built for a person 10 years younger. Rebalancing to focus on tax-efficient income or capital preservation can significantly extend the "runway" of a retirement fund.
- **Tax Planning:** In the later stages of life, how you withdraw money is often more important than how you earned it. Strategic withdrawals and timing Social Security are moves that can save six figures in the long run.

The Heir Conversation: Transparency as a Gift

A critical, yet often avoided, part of changing financial direction is communicating these shifts to heirs. Many seniors fear that discussing a change in plans - such as spending more on travel or downsizing the "family seat" — will cause friction. On the contrary, **transparency is a form of inheritance.**

Communicating your desires ensures that your heirs aren't operating on outdated assumptions. It is helpful to frame the conversation around **intent rather than just amounts**. Instead of a vague

discussion about "what's left," explain the *why* behind your pivots: *"We are downsizing now so that we have the resources to remain independent and healthy for longer."* By clearly articulating your financial boundaries and your desire for autonomy, you remove the burden of guesswork from your children. It allows them to plan their own lives with clarity while respecting your right to steer your own ship.



Overcoming Financial Inertia

The greatest threat to a comfortable retirement isn't usually a market crash; it's **inertia**. Post-retirement inertia occurs when individuals go into a "defensive crouch," afraid to touch their principal or, conversely, continuing to spend at a rate that no longer matches their reality.

Avoiding this requires a psychological shift. You must view your financial plan as a living document. If the data changes — whether that's a change in health, a shift in the market or a realization that you simply don't need as much "stuff" as you used to — the plan must change with it.

Key Perspective: A financial "pivot" at age 65 isn't an admission of past failure; it is an act of current intelligence. It is the recognition that your capital should serve your current life, not a version of yourself that no longer exists.



The Cumulative Effect of "Late" Changes

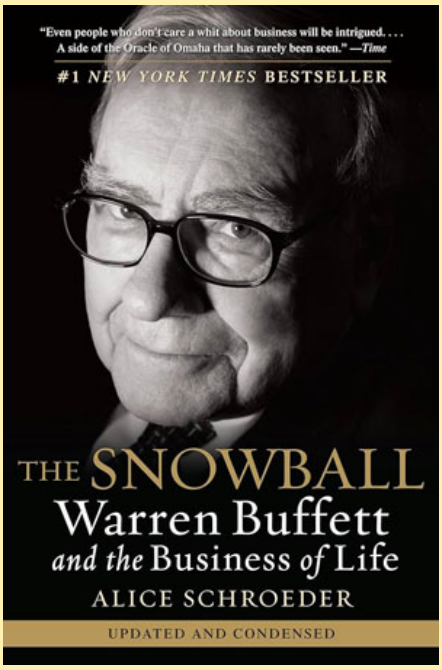
We often underestimate the impact of small percentages. If a 70-year-old reduces their

annual expenses by just 10% through mindful spending, that capital remains in the portfolio to compound. Over a 20-year horizon, that "small" change can mean the difference between leaving a legacy and outliving one's assets.

Ultimately, financial agency does not have an expiration date. The math of compound interest doesn't care how old you are; it only cares that the numbers are moving in the right direction. By rejecting the idea that "the die is cast," you regain the power to optimize your life at any stage.

Recommended Reading: The Snowball: Warren Buffett and the Business of Life

This month, Brad's recommended reading is "The Snowball: Warren Buffett and the Business of Life" by Alice Schroeder. This book moves beyond a typical biography and also highlights how choices and habits guide your personal and financial path through life. You can download the book here or purchase it here.





For Teens:



What is path dependency?

- A. The choices you make will depend on what path you take in life.
- B. The choices you make currently affect what options you have in the future.
- C. The choices you made in the past affect what options you have now and for the future.

Choosing to invest early can create a _____ effect over time.

- A. Snowball
- B. Positive
- C. Catch up

Which example demonstrates path dependency?

- A. Buying a $200 pair of shoes and delaying building strong financial habits.
- B. Choosing a major in college and trying a new hobby.
- C. Saving $50 a month at 18 and building strong financial habits.

For Adults:

What is the “lock-in” effect?

- A. Sticking with something because you like it.
- B. Continuing something because switching would be too difficult or costly.
- C. Focusing on something because you want to be committed.

Path dependency implies outcomes are irreversible and only applies to financial decisions.

- A. True, it creates constraints
- B. False
- C. True

Withdrawing too much from retirement accounts early can affect long-term portfolio _____?

- A. Dependencies
- B. Benefits
- C. Sustainability

Click here for the answers.

Sources:
Investopedia.com
What Is Path Dependency? Definition, Effects, and Example – Savings Grove

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