



WEALTH OF KNOWLEDGE

NEWSLETTER COVERING THE WEALTH CONTINUUM

Debt Management

According to the Federal Reserve's Survey of Consumer Finances, the average American family carries \$6,270 in credit card debt. This is in addition to loans held for vehicles, homes, education and other obligations which brings the average American personal debt to \$92,727.* While these figures may make previous generations balk, the average cost of a car, house, and college education has skyrocketed when compared to the average household income. While gross household debt was only 15% of GDP in 1946, it is close to 80% now.** As a result, typical consumers need to borrow money if they want to buy a home, drive a car, or educate themselves or their children.

Ideally, a household should run like a business. Each year, we should make more money than we spend, adding dollars to the left side of our personal balance sheets while paying down debt and reducing liabilities on the right hand side. There are several tips and tricks to keep this balance sheet aligned, and the first is proper budgeting from the beginning.

The first step in budgeting is to truly understand how much we spend on a monthly basis. Fixed expenses are fairly straight forward and easy to track, as mortgages, car payments, and student loans will typically be the same every month. It's our discretionary spending that needs our full attention. A helpful exercise is to check your statements on a monthly basis to see where your discretionary income is going and where it can be adjusted (there are several apps to help with this). Next, we should compare this negative cash flow to our positive cash flows, otherwise known as our income. Are they close? If so, how can we reduce the negative outflows, as that is usually easier than picking up a second job and boosting income. If they are not close, that's great, let's figure out how to best utilize this extra cash flow.

If you find yourself with ample cash after paying all your monthly expenses, we should determine the best use of that cash. What short-term or long-term goals do you have that this cash can be utilized for? For example, if you want to save for retirement, then you should consider tax efficient investment accounts such as your company's 401(k) or IRAs. If one of your goals is to buy a boat in the next 3 years, then I recommend keeping this extra cash flow fairly liquid, as market volatility can disrupt savings on a short-term basis. In either case, setting up automatic transfers to the appropriate account is an easy way to set this money aside to accomplish your goals.

The next step in controlling your personal balance sheet is realizing when it is appropriate to utilize credit. As a modern consumer, you

need credit. The old adage of, "If you can't pay for it with cash, then you can't afford to buy it" may have been sound advice 40 or even 20 years ago, but such attitudes about credit are unrealistic for most adults living in modern times. Borrowing money for purposes of home improvement, home purchase, education, vehicles or starting a business are great examples of utilizing credit appropriately, as long as the repayment on these obligations are feasible. Circling back to our cash flow analysis above, how much leftover income do you have, and can you afford these additional responsibilities? It's critical not to overextend ourselves.

Should we find ourselves a bit over extended, what is the easiest way out? There are two primary methods of paying down debt. The first method is referred to as the debt avalanche. This is where you make minimum payments on all of your loans and then pay extra principal towards your loan with the highest interest rate. This will save you money in the long run as you pay down the highest rate first. The second method is referred to as the debt snowball, this is where you make minimum payments on all loans and then put extra money towards your lowest balance. The idea here is that the morale boost of paying off the lowest balance will push you to continue the same disciplined repayment schedule on other obligations.

Just like a business, our personal balance sheet should have a cash reserve readily available that is not earmarked for other goals. The purpose of this extra savings is your emergency fund for unexpected events. Typically, it is recommended to have 3-6 months of living expenses stashed away. This will vary depending on your current employment situation, whether you have proper insurance coverage, and your stage in life. The team at CNB Wealth Management would welcome the opportunity to meet with you to discuss your financial plan. While no one has a crystal ball, the concept of developing and sticking with a financial plan will surely reduce anxiety and help prepare you for the future.

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*<https://www.bankrate.com/personal-finance/debt/average-american-debt/#:~:text=As%20of%20November%202020%2C%20consumer,student%20loans%2C%20mortgages%20and%20more.>
 **https://www.stlouisfed.org/-/media/files/pdfs/hfs/assets/2017/moritz_schularick_the_great_american_debt_boom.pdf?la=en



Annual Picnic Postponed to 2022

While restrictions have recently relaxed and we are gradually returning to in person events, we will not be hosting our Annual Picnic in August 2021. We look forward to safely celebrating with you in 2022.

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Retirement Confidence Remains Strong, Despite Pandemic

Despite the economic shock of the coronavirus pandemic, American workers and retirees remain surprisingly optimistic about their ability to achieve their retirement income goals.

In its annual Retirement Confidence Survey conducted in January 2021, the Employee Benefit Research Institute (EBRI) found that 80% of retirees and 72% of workers were either very or somewhat confident in their ability to afford a comfortable retirement. "Even with changes in the labor market, workers' confidence in their ability to live comfortably in retirement remains high overall," said Craig Copeland, EBRI senior research associate and the study's co-author.

On the other hand, he continued, "Three in 10 workers say the pandemic has negatively impacted their ability to save for retirement due to reduced hours, income, or job changes." Workers who said their ability to save was negatively affected were those who have historically reported lower confidence, including individuals with low income and debt-management challenges.

Nearly four in 10 workers said their households experienced a negative job

or income change since February 1, 2020. One in 10 were furloughed or temporarily laid off, while 18% said their hours and/or pay were reduced. Half of workers who reported a negative change said they were either somewhat or significantly less confident in their ability to retire comfortably because of the pandemic. By contrast, 21% of workers reported having some type of positive change during the pandemic, and just 17% now plan to retire later than anticipated because of the crisis.

Retirees seemed even more resilient. Eight in 10 said their overall lifestyle is what they expected or better than they anticipated — results that remained virtually unchanged from the January 2020 survey. Just 26% of retirees said their expenses are higher than expected, a decrease from the 2020 results. About 70% said their retirement confidence was not affected by the pandemic. Study co-author Lisa Greenwald speculated that some of this confidence may be because retirees spent less overall during 2020, a year with limited opportunities to travel and enjoy other leisure activities.

The survey also revealed stronger confidence in Social Security and Medicare,

perhaps because benefits continued uninterrupted throughout the challenging year. Both retirees and workers reported the highest-ever confidence levels in the ability of Social Security to continue providing benefits at least equal to what is received today. And despite critical health-care concerns during 2020, 75% of retirees and nearly 60% of workers were confident in the future of Medicare — another record high.

One-third of workers said they currently work with a financial professional. Of those who didn't, 38% expect to do so in the future. Evidence shows that working with a financial professional can help you define and achieve your retirement goals. As always, our credentialed team at CNB Wealth Management stands ready to meet with you and answer any questions you may have.

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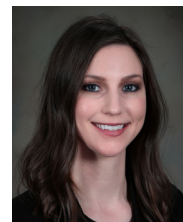
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Welcoming Megan Foster Barkley to the CNB Wealth Management Team



Megan Foster Barkley, Esq. joined CNB Wealth Management in April 2021 as Assistant Vice President, Trust Officer. She brings more than 5 years of experience assisting clients in navigating the complexities of estate planning. Prior to her current role, Megan practiced law as a trusts and estates associate attorney.

Megan is located at Basin Park Financial Center and may be reached at (585) 419-0670, ext. 41937 or at MBarkley@CNBank.com.



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