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NiaOnline Presents...

High Income, Low Net Worth

Draped from head to toe in designer clothes, Marie* is the picture of success. The 39-year-old native New Yorker pulls in a low-six-figure income as director of sales for an international luxury fashion house. She spends much of her time jet-setting from the East Coast to the West and to Italy, Greece, and England as she oversees merchandise sales. She summers in the Hamptons, the playground for New York's rich and famous. The one thing that doesn't match her lifestyle is her net worth.

You see, Marie has only $15,000 in liquid assets and carries $5,000 in credit card debt. That may still sound like a decent chunk of change, but fashion is a very volatile industry, so she'd like to have an emergency-cash cushion of at least $30,000 at all times--enough to cover six to eight months' worth of living expenses.

"I never felt I was secure enough in my career to invest or buy real estate," Marie explains. A change in careers about eight years ago (she used to sell computer products) that came with a temporary pay cut, and a divorce about two years later, are among the reasons she cites for having so tiny a nest egg.

She started contributing to her 401(k) five years ago and now contributes 7 percent of her pretax salary to it, but she does not invest outside of the retirement account. She is starting to think about buying property and starting her own business. "Just filling out my tax return makes me realize I need to be smarter about making my money work for me."

Marie is not alone. "As a culture, we [African-Americans] are starting to understand that wealth is not defined by income but by net worth," says Genevia Fulbright, a Durham, North Carolina, financial adviser and author of *Make the Leap: Shift From Corporate Worker to Entrepreneur*. Wealth is the difference between what you own--property, stocks, bonds, a business--and what you owe.

In every income bracket, Blacks have less wealth than Whites. According to a recent study by the advocacy group United for a Fair Economy, White households had an average net worth of $468,200 in 2001, more than six times the $75,700 average of Black households.

**Not her real name.*

In part, this wealth inequity is a result of the historic advantage that Whites have had in accumulating and passing on assets. By some estimates, up to 80 percent of lifetime wealth accumulation results from the passing down of family gifts in one form or another from generation to generation.

A cornerstone of wealth is home ownership, which makes up 44 percent of Americans' overall net worth, according to the U.S. Census Bureau. Not owning your own home can make a sizable difference in your net worth and your ability to accumulate wealth. When you rent, your money builds your landlord's wealth, not your own. Not surprisingly, recent statistics from the Urban League indicate that fewer than 50 percent of African-American families own their own homes, compared with 70 percent of White families.

Another key component of wealth is retirement savings, of which Blacks have less in all income brackets. According to the latest Ariel Mutual Funds/Charles Schwab 2004 Black Investor Survey, African-Americans earning $100,000 or more have a median amount saved for retirement that is 27 percent less than that of Whites in the same income bracket.

Overall, fewer than one in five African-Americans participates in an employer 401(k) retirement plan, according to the Coalition of Black Investors. In addition, the Employee Benefit Research Institute reports that the number of eligible African-Americans who choose *not* to participate in their employer's pension plan has actually gone up in the past few years.

Without a doubt, it is a challenge building net worth while you are struggling to pay bills, raise a family, and advance in your career. But by building your net worth, you are building a security cushion for the future. The better prepared you are, through savings and investments, the better you will weather economic downturns--no matter what your income.

Having assets can mean the difference between being able to afford health insurance and being wiped out by a visit to the emergency room. It can be the difference between having to take any job if you are downsized and being able to wait for the right position. "It takes discipline, and if you start early, you can take advantage of [the head start]," says Fulbright, "but it is never too late to start."

Are you ready to begin? Here are five steps for building your net worth today:

1. **Work on a personal spending plan to see where and why you are spending money.** "A lot of people know where their money goes, but they don't look at the reason they spend," says Fulbright. Knowing why you spend can help you feel in control of your finances. For some tip on putting together a spending plan, read the previous NiaOnline article "Can a Money Abuser Ever Change?"

2. **Reposition yourself to make more money in a career you truly love.** Put maximum effort into your career. Those who love what they do and have fun doing it tend to make more money than those who don't. If you're unsure how to begin, read our previous article "Are You Passionate About Your Career?"

3. **Put your budget on autopilot.** Automate your budgeting by depositing preset amounts of money into several accounts: one for savings; one for large bills, such as car payments and the mortgage; and one for daily expenditures like groceries. Money-management software such as Quicken or Microsoft Money can help you balance your checkbook and track your day-to-day expenditures.

   Aim for an emergency savings account that can take you through at least six months of living expenses. The higher your income, the more money you need to have, since it may take you longer to find a new position. The NiaOnline article "Resolve to Improve Your Finances" contains some automation tips that are always timely.

4. **Make investing part of your life.** Get up to speed financially by reading magazines and books about personal investing. You might even join an investment club. Before starting, read these NiaOnline articles: "The Ladies' Club, Part 1: Making Money Together" and "The Ladies' Club, Part 2: Start an Investment Club in 10 Basic Steps."

5. **Contribute at least enough to your 401(k) plan to get the employer match, if one is available.** If you are able to, contribute more. The maximum you can contribute to a 401(k) plan in 2004 is $13,000. If you are over age 50, you can contribute up to $16,000. For more information, read our previous article "How to Get the Most Out of Your 401(k)".

As for Marie, she's saving up to buy her first home, which she hopes will be an investment property in New York City. "I need to be able to carry a mortgage, whether I have a job or not," she explains.

Meanwhile, Marie will continue to sport the designer duds, which she gets for free or at half price: "I'd be nuts to pay full price. I know how much they pay to make the clothes."

Do you have a high income but low net worth? If so, what do you plan to do about it? Share your thoughts in the comments section below.

--NiaOnline Editorial Staff