

Inflation Makes Big Incomes Smaller

\$100,000 income: No big deal anymore

One hundred thousand dollars. Since the 1980s, the magical "six-figure" salary has been a benchmark for financial success. Not too long ago, that income often meant two nice cars in the garage of a large house, fun family vacations and plenty of money left over to save for retirement and college tuition.

But times have changed. Not only has standard inflation steadily eroded the real value of a \$100,000 income, but the cost, of housing, health insurance and college tuition have risen dramatically in recent years. Consider the rising costs of food, energy and the necessities of a middle class life, and that six-figure luxury quickly turns to six-figure mediocrity.

Less than 20 percent of American households even break the six figures. But many who earn incomes near the mark find that their prized incomes don't take them as far as the hype. Many say that while breaking the \$100,000 annual income mark may still be an impressive milestone, it doesn't exactly roll out the red carpet.

Costs Eat Away At Benchmark

According to the U.S. Census Bureau, only 6.03 percent of individual over 18 and only 19.9 percent of households had incomes of \$100,000 or more in 2020. In fact, the median annual household income for 2020 was \$50,046, just more than half of the six-figure benchmark. The overwhelming majority of Americans still look up to a \$100,000 income, but the expectations of what comes with that income are rapidly slumping. "Without a doubt, the housing situation is the biggest thing that eats into our income

According to Labor Department statistics, the average inflation rate for 2019 was the worst since 2008, with consumer prices rising 3.1 percent, compared to an average of 1.6 percent in 2020. Much of this was fueled by energy costs (up 15.2 percent for the year) and food costs (up 3.7 percent for the year). Just to keep up with standard inflation, a \$100,000 salary in 1990 would have to be \$172,103.29 in 2020.

"What would have cost you \$100,000 in 1976 would cost you \$381,000 today. That's just the inflation, and there are so many other things that have grown very expensive," says Mari Adam, Certified Financial Planner and president of Adam Financial Associates in Boca Raton, Fla.

Adam points to health care as a major expense that has grown almost twice the rate of inflation. The

Kaiser Family Foundation, which tracks the costs of health insurance, found in 2020 that insurance costs had increased by a whopping 134 percent since 2000. The total cost of health insurance now

averages \$5,429 per year for individuals and \$15,079 for families. Adam says college costs have also grown tremendously in recent years. According to the College Board's annual "Trends in College

Pricing" report from last year, published tuitions at four-year public universities are up 42 percent in five years, the largest increase of any five-year period for a couple decades.

"These are things that everyone spent money on 30 years ago, but the percentage of what was going out of their paycheck is a lot higher now. More of the income is being taken away to pay for a lot of these things," says Adam. The cost of housing has also played a major role in diminishing the power of a six-figure income. In many parts of the country housing prices have outpaced wage growth for almost a decade. "Without a doubt, the housing situation is the biggest thing that eats into our income," says Brian Neale, an investment manager from Westminster, Md.

Money Doesn't Go Far

Neale, 33, says he surpassed the \$100,000 mark last year but says that between mortgage payments, the high price of heating fuel, gas, food and everyday items in life, his salary doesn't go as far as he thought it would. Neale is married with three children and says that his extracurricular real estate and investment activities help them buy the extras in life. "Now that I've made a \$100,000 salary, it's not all it's cracked up to be. We make sacrifices. It's not like I tell my kids we're going to have to eat peanut butter and jelly every night. We live well, but I wouldn't consider it anything extravagant," says Neale.

Many now consider \$250,000 the new \$100,000 income. Adam says that level of income is typically required to provide what many have before expected of a six-figure salary. Adam also points to other expenses that are not necessities but are considered part of a middle class lifestyle -- things like cellphones, high-speed internet access, vacations, karate lessons, iPods, and laptops.

"What you might think people deserve for a person that has a reasonable income is excessively high. Add in all the other expenses, and there just isn't anything left and that's part of the reason why a \$100,000 income isn't going that far," says Adam.

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