

Focus on Your Net Worth

EXPERT
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Tool 1: Net Worth Statement

In this workshop, you will learn three tools that will help you reach your financial goals.

- Net worth statement.
- Income/expense statement.
- Spending plan.

Net Worth Statement

A net worth statement is a “financial snapshot” that shows your financial position at a given point in time. Like businesses, you need a record of your assets and liabilities. Assets are things you own with economic value. Liabilities are your debts. The difference between the two is your net worth.

Why is a net worth statement important? Before you can create a plan to achieve your financial goals, you need to know the resources you already have. Net worth statements are also useful as summaries of financial information. You may be asked for this financial information when you apply for a mortgage, lease a car, or talk with a financial planner.

What should a person’s net worth be at a specific point in time? One suggestion comes from the best-selling book, *The Millionaire Next Door*, by Stanley and Danko (1996): Multiply your age times your pretax income from all sources (except an inheritance) and divide by ten. This is what net worth should be for a particular age and income. For example, using this formula, the net worth (assets minus debt) for a 35-year-old earning \$40,000 gross annual income should be:

$$\$140,000 (35 \times \$40,000 = \$1,400,000 \div 10)$$

Preparing a Net Worth Statement

The easiest way to calculate your net worth is to use a preprinted list of assets and liabilities, such as Worksheet 8. Once you have prepared a net worth statement, you may develop your own form, one that is just right for your personal situation.

Now is the time when all your financial records, which you located after the first workshop, will come in handy. Use the information to help you complete your net worth statement. For more information:

1. Car values are published by the Kelly Blue Book (<http://www.kbb.com>) and the Edmunds Automobile Buyers Guide (<http://www.edmunds.com>). You also can check Autosite (<http://www.autosite.com>), Car Prices (<http://www.carprices.com>), or other Web sites for the current list prices on used cars, vans, trucks, wagons, and SUVs.
2. The cash value of whole life insurance policies can be found on a schedule in the policy. It is also available from your insurance agent. The cash value is the amount of money the insurance company would return if you terminated the policy today. Term life insurance has no cash surrender value.
3. Annuity values are available in annual reports or quarterly statements, or from your broker or insurance agent. The daily values of mutual funds, corporate stocks, and bonds are quoted each day in larger newspapers and the *Wall Street Journal*. Many brokerage firms post share and fund prices on their Web site and are accessible with your personal identification number (PIN).
4. Any bank or other vendor of U.S. Savings Bonds can tell you the current value of your bonds. If you have Internet access, you can price them online at <http://www.savingsbonds.com>.
5. The human resources officer at your place of employment should be able to tell you the amount you have contributed to your pension or 401(k) plan.
6. Second-hand shops, classified ads, collector's value guides, and dealers will be able to help you estimate the value of furniture, appliances, sports and hobby equipment, collections, jewelry, and art.
7. The balance owed on installment debts or credit cards is listed on monthly statements from creditors.
8. If you are unsure of the current value of your house or other real property, consult a real estate agent. The principal owed on a mortgage is usually available on quarterly or annual statements from the mortgage holder.

As you work through each item on Worksheet 8, be as accurate as you can, but don't be afraid to round off numbers to the nearest \$5, \$10 or even \$100. Your ambition is to analyze the information to see how you are progressing toward your goals. Make this worksheet a document that is useful to you.

Using Your Net Worth Statement

You will use different parts of your statement to analyze different personal goals. If your objective is to look at your retirement plan, then you will be interested in the present value of your pensions, mutual funds, IRAs, 401(k) plans, and investments, as well as their projected future values. If your objective is to build up an emergency fund, you will look at assets that you can easily convert to cash, such as checking accounts, savings accounts, money market funds, and CDs.

Will the value of your assets increase over time? Some assets tend to appreciate, such as mutual funds, stocks, and real estate. Some assets do not appreciate but are income-producing, for example, interest-bearing checking and savings accounts, money market funds, money market deposit accounts, certificates of deposit, and bonds. This is the time to check if your interest-bearing accounts are producing a satisfactory return.

Some assets depreciate; they decline in value over time because of wear and tear and because something better comes along. Some examples of this are automobiles, furniture, and appliances. When will you need to repair or replace these assets?

This is also the time to review your liabilities. Have you borrowed money to buy a car, a recreational vehicle, a home? If so, how does the amount you presently owe compare to the present value of the item?

Sometimes, people borrow money for items that are investments in human capital. Investments in human capital are those things that increase an individual's knowledge, skills, or well-being. Education and medical and dental care are examples of investments in human capital. These items do not show up as financial assets on the net worth statement, but they will show up as debts or decreased savings. Even though they may decrease financial net worth in the short run, they are important assets to the family and the individual and may increase future income and/or decrease future expenses.

Tool 2: Income and Expense Statement

The second tool that will help you meet your goals is an income and expense statement (Worksheet 9). An income/expense statement (or a cash flow analysis) is a picture of your income now and how you have spent your money in a given time period in the past. Why is this needed? Because until you know where your money is going, it is very difficult to be able to make a plan to meet future financial goals. An income/expense statement can help identify expenses to cut if you want to increase savings.

An income/expense statement is not the same as a budget or spending plan. A budget is a plan for future expenditures and income; it can also be a running record of expenditures and income. Budgets usually cover spending for a week or a month at a time and therefore contain much more detail about the nature of income and expenditures. Income/expense statements summarize income and expenditures over a longer period of time than budgets, usually a year.

Preparing an Income/Expense Statement

To make an income/expense statement, you'll need your financial records from the past year (tax forms, checking and savings statements, investment records).

Most people calculate their income/expense statement from January 1 to December 31 of the same year. Some do it sometime during the month of January, others wait until they have completed their tax returns and do it in March or April. You can start and end an income/expense statement in any month.

Worksheet 9 is a template that you can use to create your own income/expense statement. Complete this worksheet on a weekly or monthly basis and then total the numbers for your annual statement. Begin by listing all sources of income at the top of the first column.

The remaining items are for expenses. Some expenses occur each month. These may be fixed; the same amount every month (like a car payment). Or they may be variable; they occur every month but the amount varies from month to month (like your grocery bill). Some expenses occur irregularly or only a few times in a year. For example, car insurance is a fixed amount that may occur only twice a year. Clothing and vacation expenses are variable and occur irregularly throughout the year.

For cash withdrawals from an ATM or for checks made out to cash, if you do not know what they were for, list the amount under “Cash.” If this category is a high proportion of your past expenses, try to reconstruct an estimate of where this cash went. An eye-opening exercise that will help you create this estimate is to keep track of all your cash expenditures for one week. You might find that during this week you bought gas for the car, spent half your in-pocket money on lunches and coffee breaks, and one-fourth on groceries you purchased on the way home from work. Use these proportions to divide your cash expenditures into the appropriate categories.

If you come out with a surplus on paper, but not in your pocket, you probably underestimated expenses. On the other hand, if your expenses are greater than your income, you may have dipped into savings, used credit, or underestimated your income.

Worksheet 9 is a sample income/expense statement form that you can use to get started. Make the necessary number of copies, depending on whether you will use this statement weekly or monthly. After you’ve used it for a while, you can personalize it by creating your own categories.

Using the Income/Expense Statement

After completing the income/expense statement, study the amounts you listed as income. If your income is increasing, how much can you use for your long-term financial goals? If income is decreasing, what expenditures are you willing to cut? Are there ways to get additional income?

Look at your expenditures. Are there expenditures you think should be increased? Decreased? Are there debts that will be completely paid off in the near future? If so, can the money that has been going to debt go into meeting future goals?

During the year, how will you monitor your finances to see how close your actual expenses and income are to your estimates? An income/expense plan is no help if it isn’t used as a tool to help you meet your financial goals.

Keeping Track

As you work on your income/expense statement, you will find missing information. Make needed changes, over time. Once you have organized your records, keeping track will be easier.

If you haven't been keeping track of income and expenses in the past, creating an income/expense statement for a year may seem like a monumental amount of work. If you can't face going through a year's worth of checks and receipts, don't do it. Keep track for two or three months and create estimates from that. Don't forget the expenditures that only occur periodically – gifts, holidays, car insurance, school clothes and supplies, taxes, dental care. They have a place in your expense column as well.



Tool 3: Savings and Spending Plan

The third tool to help you meet your goals is a savings/spending plan. A spending plan is designed to be a guide for future spending and to plug any leaks that might have shown up in the income/expense statement. A spending plan is a map or blueprint for how you want to spend your income in the future. It allocates certain amounts to fixed and variable expenses, and creates a “big picture” perspective for helping you meet future goals. A savings/spending plan can help you save for emergencies and plan ahead for big expenses. Worksheet 10 will allow you to project your savings/spending plan for one year. To start, use the information from your income/expense statement. Make adjustments for the current year.

Worksheet 10 is a sample savings/spending plan. You can personalize the plan as you did the net worth statement. You may develop your spending plan on a weekly or monthly basis. Your plan will need to be changed as your family’s needs change.

At the top of the savings/spending form, record all the income you expect in the next week/month. Then, using the historical record you created in the income/expense statement, estimate expenses for this week/month. Look ahead to see what must be set aside for future expenses, like car insurance and property taxes. It’s okay if every penny isn’t budgeted. In fact it’s good to have some leeway for the unexpected.

During the week/month, write down the income you actually receive and the money you spend. Compare your actual expenses to the plan you made. If you overspend in one area, adjust your plan the next week/month. No spending plan is perfect the first time.

Summary

This unit included homework exercises to create three financial tools: 1) a net worth statement, 2) an income/expense statement, and 3) a saving/spending plan.

A net worth statement is a big-picture tool that shows your assets and liabilities at one point in time. If you create a new net worth statement each year, you will be able to see progress towards your goals. An income/expense statement shows where money has gone in the past. It is a historical record that lays the groundwork for the day-to-day savings/spending plan. Your savings/spending plan is where you incorporate the amount you need to set aside to meet the future goals you set in the first workshop. Although creating each takes time, the finished worksheets are there to assist you. We will be referring to them as we go through the rest of the workshops.

Adapted from *Take Charge of Your Money* by Barbara R. Rowe, Utah State University Extension Service, 2001.



Net Worth Action Box

- Determine your net worth.
- Develop an income and expense statement for the past year.
- Develop a savings/spending plan for the next 12 months.

Worksheet 8: Net Worth Statement

Today's Date _____

Assets

Cash on hand	\$ _____
Checking account(s)	_____
Savings account(s)	_____
Money market mutual fund(s)	_____
Money market deposit accounts	_____
Certificates of deposit	_____
Savings bonds	_____
Stocks	_____
Bonds	_____
Mutual funds	_____
Real estate	_____
Home	_____
Other	_____
Cash value/life insurance	_____
Partnership/business equity	_____
IRA/Roth IRA	_____
Keogh/SEP	_____
Employee retirement fund	_____
401(k)/403(b) plans	_____
Tax-deferred annuities	_____
Other retirement funds	_____
Home furnishings/appliances	_____
Automobile(s)	_____
Antiques, art, collections	_____
Jewelry, furs, etc.	_____
Sports and hobby equipment	_____
Other assets	_____

Total assets	\$ _____

Liabilities

Mortgages	_____
Home	\$ _____
Other real estate	_____
Automobile loan(s)	_____
Bank loan(s)	_____
Student loan(s)	_____
Credit cards/ charge accounts	_____
Past-due bills	_____
Taxes	_____
Pledges: charities, church	_____
Partnership/ business debt	_____
Loans on life insurance policies	_____
Other liabilities	_____

Total liabilities	\$ _____
Total assets	\$ _____
Minus total liabilities	_____
Net worth	\$ _____

Worksheet 9: Weekly/Monthly Income/Expense Statement

From _____	To _____	Future goals	\$ _____
		Automotive expenses	
		Loan payments	_____
		Insurance	_____
		Tires, maintenance, repairs	_____
		Food	_____
		Meals Eaten Out	_____
		Work	_____
		Family	_____
		School	_____
		Clothing	_____
		Medical	_____
		Health insurance	_____
		Doctor	_____
		Dentist	_____
		Prescriptions	_____
		Life/disability insurance	_____
		Child care expenses	_____
		Child support/alimony paid	_____
		Recreation, hobbies	_____
		Personal care	_____
		Education, books	_____
		Postal fees	_____
		Computer/Internet fees	_____
		Bank loans	_____
		Charge accounts/credit cards	_____
		Gifts	_____
		Charitable contributions	_____
		Business/professional exp	_____
		Entertainment	_____
		Seasonal	_____
		Holiday	_____
		License plates	_____
		School expenses	_____
		Personal allowances	_____
		Cash	_____
		Other expenses	_____
		Total expenses	_____
		Total income	_____
		Difference	\$ _____
Income			
Gross salary	\$ _____		
Interest income	_____		
Dividends	_____		
Business/profit sharing	_____		
Profit from rental property	_____		
Profit from sale of assets	_____		
Alimony/child support	_____		
Annuities	_____		
Pension/retirement funds	_____		
Social Security	_____		
Disability insurance payments	_____		
Cash gifts	_____		
Other income	_____		

Total cash income	\$ _____		
Expenses			
Federal taxes	\$ _____		
Social Security (FICA)	_____		
State income taxes	_____		
Property taxes	_____		
Other taxes	_____		
Rent/Mortgage	_____		
Utilities	_____		
Gas	_____		
Telephone	_____		
Water	_____		
Garbage & sewer	_____		
Electricity	_____		
Cable TV	_____		
Property insurance	_____		
Household maintenance	_____		
Furniture/appliances	_____		
Other housing expenses	_____		
Savings	_____		
Investments	_____		
Retirement account(s)	_____		

Worksheet 10: Saving/Spending Plan

Expenses	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Yearly Total	Monthly Average
Federal taxes														
Social Security (FICA)														
State income taxes														
Property taxes														
Other taxes														
Rent/mortgage														
Utilities														
Gas														
Telephone														
Water/garbage														
Electricity														
Cable TV														
Property insurance														
Household insurance														
Furniture/appliances maint.														
Other housing exp.														
Savings														
Investments														
Retirement account(s)														
Future goals acct(s)														
Auto expense														
Loan payments														
Insurance														
Tires/repair														
Food/groceries														
Meals eaten out														
Work														
Family														

(Continued)

(Worksheet 10 continued)

Income	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Yearly Total	Monthly Average
School														
Clothing														
Medical														
Health insurance														
Doctor														
Dentist														
Prescriptions														
Life/disability insurance														
Child care expense														
Child support/alimony paid														
Recreation, hobbies														
Personal care														
Education, books														
Postal fees														
Computer/Internet charges														
Bank loans														
Charge accounts/credit cards														
Gifts														
Charitable contributions														
Business/prof. expense														
Entertainment														
Seasonal														
Holiday														
License plates														
School expenses														
Property taxes														
Personal allowances														
Cash														
Other expenses														
Total Expenses														

(Continued)

(Worksheet 10 continued)

Income	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Yearly Total	Monthly Average
Salary (gross)														
Interest income														
Dividends														
Business/profit sharing														
Profit from rental property														
Profit from sale of assets														
Alimony/child support														
Annuities														
Pension/retirement funds														
Social Security														
Disability insurance														
Cash gifts														
Other income														
Total Cash Income														



Resources

Unit 3: Focus on Your Net Worth

1) *Consumer Expenditures in 2000*, April 2002
U.S. Department of Labor
Bureau of Labor Statistics
<http://stats.bls.gov/cex/csxann00.pdf>

2) Federal Reserve Bank of San Francisco
PO Box 7702, MS 1110
San Francisco, CA 94120-7702
415-974-2163
www.frbsf.org

3) Matejic, Denise M
How Much Am I Worth? FS012
Rutgers Cooperative Extension
New Jersey Agricultural Experiment Station
New Brunswick, NJ 08901-8525
(73) 932-9306

4) Rowe, Barbara R
Take Charge of Your Money, 2001
Utah State University Extension Service
Logan, UT 84323
(435) 797-1000
<http://extension.usu.edu/cooperative/publications/>

5) Stanley, Thomas J; Danko, William D
The Millionaire Next Door, 1998
Pocket Books
New York, NY 10011



Materials available in the *Focus on Financial Management* series

Focus on Financial Management Workbook, CFS-727 (\$25)

This printed workbook contains eight chapters designed to help middle-income adults increase their financial management knowledge. It is designed either for self-directed study or for participants who enroll in a *Focus on Financial Management* program. The workbook contains 24 worksheets to help participants conduct self-assessments and compile appropriate records.

Focus on Financial Management Coordinator's Guide, CFS-726 (\$75)

This package contains the Coordinator's Guide and Workbook in print and on a CD so that a coordinator can present the eight 2½-hour sessions. The program coordinator is expected to organize and present the sessions and provide materials to the participants. The CD is available separately (CD-CFS-726) for \$50.

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The following individual chapters of the workbook are available free online.

- CFS-727-1-W, Unit 1: Focus on Getting Organized
www.extension.purdue.edu/extmedia/CFS/CFS-727-1-W.pdf
- CFS-727-2-W, Unit 2: Focus on Money Personalities
www.extension.purdue.edu/extmedia/CFS/CFS-727-2-W.pdf
- CFS-727-3-W, Unit 3: Focus on Your Net Worth
www.extension.purdue.edu/extmedia/CFS/CFS-727-3-W.pdf
- CFS-727-4-W, Unit 4: Focus on Risk Management
www.extension.purdue.edu/extmedia/CFS/CFS-727-4-W.pdf
- CFS-727-5-W, Unit 5: Focus on Savings and Investments
www.extension.purdue.edu/extmedia/CFS/CFS-727-5-W.pdf
- CFS-727-6-W, Unit 6: Focus on Credit Cards
www.extension.purdue.edu/extmedia/CFS/CFS-727-6-W.pdf
- CFS-727-7-W, Unit 7: Focus on Life's Challenges
www.extension.purdue.edu/extmedia/CFS/CFS-727-7-W.pdf
- CFS-727-8-W, Unit 8: Focus on Retirement
www.extension.purdue.edu/extmedia/CFS/CFS-727-8-W.pdf

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