

### **PURDUE EXTENSION**

CFS-727-3-W

# Focus on Your Net Worth



Purdue Extension

Knowledge to Go

1-888-EXT-INFO



### 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.

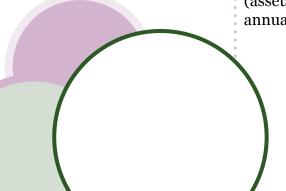
#### **Net Worth Statement**

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:

- 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.



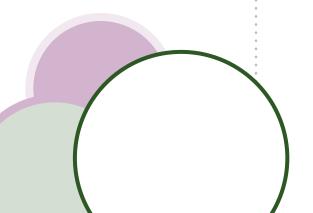
## Tool 3: Savings and Spending Plan

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.

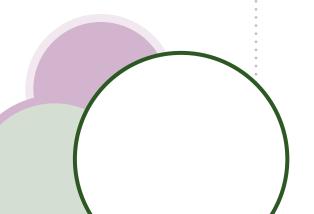


### Summary

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		Liabilities	
Cash on hand	\$	Mortgages	
Checking account(s)		Home	\$
Savings account(s)		Other real estate	
Money market mutual fund(s)			
Money market deposit account	S	Automobile loan(s)	
Certificates of deposit		Bank loan(s)	
Savings bonds		Student loan(s)	
Stocks		Credit cards/ charge accounts	
Bonds		Past-due bills	
Mutual funds		Taxes	
Real estate		Pledges: charities, church	
Home		Partnership/ business debt	
Other		Loans on life insurance policies	S
Cash value/life insurance		Other liabilities	
Partnership/business equity			
IRA/Roth IRA			
Keogh/SEP			
Employee retirement fund			
401(k)/403(b) plans			
Tax-deferred annuities		Total liabilities	\$
Other retirement funds			
Home furnishings/appliances		Total assets	\$
Automobile(s)		Minus total liabilities	
Antiques, art, collections		Net worth	\$
Jewelry, furs, etc.			
Sports and hobby equipment			
Other assets			
Total assets	\$		

## Worksheet 9: Weekly/Monthly Income/Expense Statement

From To	 Future goals	\$
	Automotive expenses	
Income	Loan payments	
Gross salary	\$ Insurance	
Interest income	 Tires, maintenance, repairs	
Dividends	 Food	
Business/profit sharing	 Meals Eaten Out	
Profit from rental property	 Work	
Profit from sale of assets	 Family	
Alimony/child support	 School	
Annuities	 Clothing	
Pension/retirement funds	 Medical	
Social Security	 Health insurance	
Disability insurance payments	 Doctor	
Cash gifts	 Dentist	
Other income	 Prescriptions	
	 Life/disability insurance	
	 Child care expenses	
	 Child support/alimony paid	
Total cash income	\$ 	
o o	Recreation, hobbies	
Expenses	Personal care	
Federal taxes	\$ Education, books	
Social Security (FICA)	 Postal fees	
State income taxes	 Computer/Internet fees	
Property taxes	 Bank loans	
Other taxes	 Charge accounts/credit cards	
Rent/Mortgage	Gifts	
Utilities	 Charitable contributions	
Gas	Business/professional exp	
Telephone	 Entertainment	
Water		
Garbage & sewer	 Seasonal	
Electricity	 Holiday	
Cable TV	 License plates	
Property insurance	 School expenses	
Household maintenance	 Personal allowances	<del></del>
Furniture/appliances	 Cash	
Other housing expenses	 Other expenses	
	 Total expenses	
Savings	 Total income	
Investments	 Difference	\$
Retirement account(s)		

Worksheet 10: Saving/Spending Plan

	Expenses	Jan.	Feb.	Mar.	Apr.	Мау	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														
3	Electricity														
	Cable TV														
	Property insurance														
'o or	Household insurance														
	Furniture/appliances maint.														
. E	Other housing exp.														
	Savings														
	Investments														
-17	Retirement account(s)														
<i>T</i>	Future goals acct(s)														
~~	Auto expense														
	Loan payments														
t	Insurance														
D	Tires/repair														
.d.,	Food/groceries														
. E-	Meals eaten out														
cten	Work														
	Family														
n														(I	

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(Worksheet 10 continued)

Income	Jan.	Feb.	Mar.	Apr.	Мау	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												(	•	
												5	(Continued)	

(Worksheet 10 continued)

Income	Jan.	Feb.	Mar.	Apr.	Мау	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

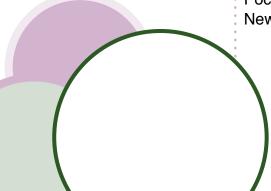
  Take Charge of Your Money, 2001

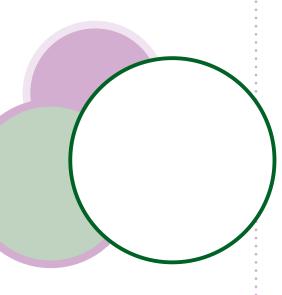
  Utah State University Extension Service

  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.

Order online at www.extension.purdue.edu/store or by e-mail to media.order@purdue.edu or by telephone to (765) 494-6794 or 888-EXT-INFO (398-4636) or by fax to (765) 496-1540 or by postal mail to:

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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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