

UNIT 2: WHERE ARE YOU NOW, WHERE ARE YOU GOING?

NET WORTH STATEMENT

PREPARING A NET WORTH STATEMENT

In our last workshop, we talked about your goals and what it would take to reach your goals. This workshop will give you some of the tools that will help you do just that. Whatever your goal is—buying a different car or house, accumulating an emergency fund, educating your children, or creating a retirement nestegg—there are some tools that will help you get from where you are now to where you want to be.

The first two tools are used to review a your current financial situation: the net worth statement and an income/expense statement. These two tools serve as a foundation for a third tool that will help you reach your goals—a spending plan.

A net worth statement is sometimes called a balance sheet. Like businesses, we need a record of our assets and liabilities—what we own and what we owe. The difference between the two is net worth. Assets are things you own with economic value—the amount you have in your checking and savings accounts, the balance in your retirement fund, and so forth. Liabilities are your debts, money you owe to others.

A net worth statement tells you the fair market value of your assets today, and the balance of your debts today. In other words, it is a snapshot of your financial well-being at one point in time. But if you prepare a net worth statement at about the same time each year, you will see how your net worth changes from year to year and you can make any mid-course corrections.

Why is a net worth statement important? Before you can create a plan to achieve your goals, you need to know the resources you already have. They are also useful as summaries of financial information. You may be asked for this financial information when you apply for a mortgage, take out a car loan, or talk with an attorney about a will.

IS PREPARING A NET WORTH STATEMENT DIFFICULT?

The easiest way to calculate your net worth is to use a preprinted list of assets and liabilities, such as Worksheet 3, **Net Worth Statement**. Similar forms are available from financial institutions such as banks and credit unions, and in many financial publications. Once you have prepared a net worth statement, you may want to develop your own form, one that is just right for your personal situation.

This is where locating all your financial records will come in handy. You will need information from some of those records to complete your net worth statement. Here are some other places to find information about the value of assets and liabilities:

1. Car values are published by the **Kelly Blue Book** (<http://www.kbb.com>) and Edmunds Automobile Buyers Guide (<http://www.edmunds.com>). If you have Internet access you can check Autosite (<http://www.autosite.com>), CarPrices (<http://www.carprices.com>) or several other web sites for current list price 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 to you if you terminated the policy today. Term life insurance has no cash surrender value.
3. The values of annuities 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 in many newspapers and the **Wall Street Journal** daily. Many brokerage firms keep the balances in your funds posted on their website and accessible with a personal identification number (PIN) assigned to you.
4. Any bank or other vendor of U.S. Savings bonds can tell you how much your bonds are worth now. 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, your municipal property assessor, or your last property tax bill. 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 3, be as accurate as you can, but don't be afraid to round off numbers to the nearest five or ten or even hundred dollars. Don't get bogged down in being accurate to the penny. Your ambition is to analyze the information you have and see how it is helping or not helping you reach your goals. If there are items on the Worksheet that don't apply to you, paste labels over them. Write in ones that you do have. Make this Worksheet a document that is useful to you.

Worksheet 3 is divided into two columns. The first column is where you list all your assets. An asset is anything that can be converted to cash. It isn't necessary to place a value on everything you own; select just those items that have a relatively high value and that could be sold easily. If you have more than one savings account, several stock certificates or multiple life insurance policies, list them and their values on a separate sheet of paper (Worksheet 2 would work) then write the total for each asset on the appropriate line of your net worth statement. Be sure to keep the detailed listing, it will show what you inventoried when you prepare another net worth statement a year from now.

The second column on Worksheet 3 is for Liabilities. These are your debts. It includes loans (including loans against whole life insurance policies), installment credit contracts, current unpaid bills, taxes due, and any other money that you owe. As you did with the Assets column, make new names of debts as needed and paste labels over the items that don't apply to you. If you have several credit cards with balances on them, use a detailed listing to create a total and enter the total into the Liabilities column.

Net worth is the difference between what you owe others (liabilities) and what you own (assets). Usually you will have a positive net worth, showing that if you could sell all your assets tomorrow, you could pay all your debts and still have money left over. Sometimes, an analysis like this reveals that your net worth is negative. In those situations, perhaps your first priority will be to pay off some debt before you reach for your other goals.

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 are liquid, such as checking accounts, savings accounts, money market funds and certificates of deposit (CDs). How much you will need for emergencies will depend on many factors—where you work, what you do, the state of your health, the amount of property you own, health and disability insurance you carry, and so on. Some experts recommend that you keep an amount equal to 2 to 3 months expenses in savings; others recommend 6 month's income.

Will the value of your assets increase over time? Some assets 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 and see 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 purchase 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, money is borrowed 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.

INCOME AND EXPENSE STATEMENT

The second tool that will help you meet your goals is an income and expense statement (Worksheet 4). An income/expense statement is a picture of your income now and how you have spent your money in a given time period in the past. Why would this be necessary? Because until you know where your money is going now, it is very difficult to be able to put together a plan to meet future goals. An income/expense statement can help identify expenditures to decrease in order to increase savings.

An income/expense statement is not the same as a net worth statement. A net worth statement calculates your financial status at one point in time. An income/expense statement, in contrast, is a record of your income and outgo over a period of time in the past, usually the previous 12 months. For example, a net worth statement lists the amount you owed on your car at the end of the year; an income/expense statement tells you the total amount you paid in car payments over the past year.

An income/expense statement is also 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. Income/expense statements summarize income and expenditures over a longer period of time than budgets, usually a year. 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.

HOW DO YOU PREPARE AN INCOME/EXPENSE STATEMENT?

Here is where all the hard work of collecting all your records pays off again. To put together an income/expense statement, you'll need your latest tax return, checkbook registers for the past year, pay stubs and bank statements. If you keep all your financial records on computer, a quick printout of your last year's checking and savings registers is in order. This way, you can sort your expenses by categories or month by month. Some software packages, like Intuit's Quicken and Microsoft Money will calculate a net worth statement and an income/expense report for you from the numbers you have already entered.

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. But you can start and end an income/expense statement in any month and use periods longer than a year if you wish.

Worksheet 4 is a template that you can use to create your own income/expense statement. Begin by listing all sources of income in the left hand column. The easiest way to obtain most of this information is to use your latest tax return. You can also use payroll stubs and listings of all deposits in your checkbook and savings account. Remember to list all sources of income, including money from gifts, interest, dividends and income-producing property. The information about state and local taxes is available on both your tax return and your paycheck stubs and wage statements. You may have other deductions from your pay that fit into other categories. For example, you may have a set amount deducted every pay period for United Way or for disability insurance.

The right hand column in Worksheet 4 is for expenses. Some expenses occur each month. These may be fixed; they are the same amount every month (like a car payment). Or they may be variable; they occur every month but the amount of the expense 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.

The most convenient source of information for fixed expenses is your checkbook record, either paper or computerized. Multiply the amount of any fixed payment by the number of times you paid it during a year and enter the amount in the “Expenses” column. If you don’t keep financial records on your computer, list on paper the different categories of variable expenses (clothing, transportation, food, medical, etc.). Then go through your check register and record the amount of each expenditure under the appropriate category. If you find that checks were made out to MasterCard, Visa or a department store for credit purchases, use the billing statements to determine how much was spent in which categories. If you paid finance charges for your credit purchases, list them under “Interest paid.”

For checks made out to cash, if you do not know what it was for, list the amount under the heading miscellaneous or HOK (Heaven Only Knows). If this category is a high proportion of your past expenditures, try to reconstruct an estimate of where this cash went. One of the most eye-opening exercises 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 of 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 for the total amount in HOK. Take the total expenditures in each category and enter the totals on your income/expense statement. Then add all the income and all the expenses.

If your total income is greater than your total expenses, the difference should be the balance in your cash on hand. 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 4 is a sample income/expense statement form and one you can use for getting started. After you've worked with it for a while you'll probably want to personalize it by creating your own categories. You might not need some of the categories listed on the form. Or you may want to add a category that fits only you. Likewise, families with different styles of financial management can use an income/expense statement in different ways. Couples who pool their incomes would probably fill out one statement. A couple keeping separate accounts might fill out two statements—one for each person. Some couples with separate accounts may also fill out a third sheet for their joint income or joint expenses.

After you have estimates for last year, think ahead to your income and expenditures for next year. You will be able to predict some items better than others, but do the best you can. The better you estimate, the fewer financial surprises you will have during the year.

If your income is uncertain, as it often is for farm families or people who work on commission, estimate the highest and lowest income you expect for the year. Have an idea what expenses you will adjust if income is at its lowest rather than the highest estimate. For example, can you consolidate trips to town to save on gasoline? Carpool to school events? Eat out less often? Can a major purchase be postponed?

HOW DO YOU USE THE INCOME/EXPENSE STATEMENT?

After completing the income/expense statement, review your income. If your income is increasing, how much can you safely allocate to meet your future financial goals? If income is decreasing, what expenditures are you most willing and able to decrease? Are there ways to get additional income?

Look over 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? Utah State University has developed a software program called PowerPay that you can use to help with debt reduction. With PowerPay, you continue to make all payments on current obligations. Then when one debt is paid in full, money used for that debt is used to increase payments on another debt. This enables you to pay more money than is due each month until all debts are paid. If you wish, you can request a credit payment worksheet from your county Extension agent and fill in all the information. There is also a PowerPay worksheet in Unit 3. After you have completed the worksheet, mail it to the Family Resource Management Specialist, 2949 Old Main Hill, Utah State University, Logan, UT 84322-2949. She will calculate a debt repayment plan for you and return it in the mail. All information is kept completely confidential.

As the year progresses, 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 future goals.

KEEPING TRACK

As you begin to put together an income/expense statement, you may find that you are missing some important pieces of information. Your record keeping in the past may not have been as detailed or complete as you would like it to be. Sales slips may be scattered, tax-related receipts stored “somewhere safe” (if you could just remember where that is), and pay stubs long gone.

There are several little tricks that can help you improve your record keeping system. Some were discussed earlier—make one person responsible for bill paying and keeping track of receipts (but everyone in the household has to cooperate by reporting income and expenses to the bill payer). Have one central location where all pay stubs and bills are stored and be sure everyone in the household knows where it is. And all records relating to the management of investments, savings, bank and credit card statements are kept in an organized file even if that file is a cardboard box under the bed.

Some people record their expenses and earnings in a notebook which is divided into categories for each type of income and expense they have. Other people create a looseleaf notebook and devote a page to each month. Some people use computer software programs such as Intuit’s Quicken or Microsoft’s Money. They are easy to learn and can create categorized lists of spending that help you see at a glance where your money is going. Any method you choose that works for you is the right one. You do need to have some way of comparing actual expenses with your plan for spending so you pick up any warning signals about potential problems.

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 occasional expenditures that only occur periodically—gifts, holidays, car insurance, school clothes and supplies, taxes, and dental care. They have a place in your expenses column as well.

PREPARING A SAVING/SPENDING PLAN

The third tool to help you meet your goals is a saving/spending plan. You’ve prepared an income/expense statement that will help you see where your money has gone in the past. A spending plan is designed to be a guide for future spending and to pinpoint any leaks that might have shown up in the income/expense statement.

A saving/spending plan is not an income/expense statement. An income/expense statement shows expenditures in the past. 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 saving/spending plan can help you save for emergencies and plan ahead for big expenses.

Worksheet 5 is a sample spending plan. Your own plan may have many more types of expenses as items come up during the year. You can personalize the plan as you did the net worth statement. Paste labels over expense categories you don't have or anticipate. Write in new categories that capture existing expenses that are likely to occur again. Make as many drafts as necessary to arrive at a plan that fits your income and needs. Once you have arrived at a form that makes sense for you, make extra copies. Don't become discouraged if your first plan isn't perfect. Your plan may need to be changed often because your family's needs are changing.

At the top of the saving/spending form, write down all the income you expect in the next month. Then, using the historical record you created in the income/expense statement, itemize expenses for this 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.

If possible, set aside a little money each month that is a personal allowance. For single persons, a personal allowance allows for small indulgences within self-imposed limits. Many married couples find a personal allowance tends to cut down on conflicts. Two people seldom agree completely on how to spend money. Personal allowances allow each partner to exercise complete discretion over an agreed-upon amount of money and to not have to answer any questions about where it was spent.

During the 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 month. No spending plan is perfect the first time!

SUMMARY

This unit has included several exercises that you will finish at home. Creating a Net Worth Statement, Income/Expense Statement and a Spending Plan all at once may seem like a lot of work. And it is! But just as it is difficult to build a house without a blueprint, it is difficult to build a firm financial future without drawing up some plans in advance.

A Net Worth Statement is a big picture tool that shows you 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 even when it seems extremely slow. An Income/Expense statement is like zooming in on a smaller snapshot of where you have accumulated resources and where your money has gone in the past. It is an historical record, and one that lays the groundwork for the day-to-day Spending Plan. Your Spending Plan is where you incorporate the amount you set aside to meet the future goals you set for yourself. All three tools are there to assist you and we will be referring to them as we go along.

Adapted from *Family Financial Planning: Preparing and Using Financial Statements (EC 1381)*, and *Your Saving/Spending Plan (EC 1270)*, developed by Alice Mills Morrow, Oregon State University Extension Service, Corvallis, OR.

WORKSHEET 3: NET WORTH STATEMENT

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	_____
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	_____
Less total liabilities	_____
Net worth	\$ _____

WORKSHEET 4: INCOME/EXPENSE STATEMENT

From _____ to _____

Income

Gross salary \$ _____
 Interest income _____
 Dividends _____
 Business/profit sharing _____
 Profit from rental property _____
 Profit from sale of assets _____
 Alimony/child support received _____
 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 _____

Property insurance _____

Household maintenance _____

Furniture/appliances _____

Other housing expenses _____

Savings _____

Investments _____

Retirement account(s) _____

Future goals _____

Automobile expenses _____

Loan payments _____

Insurance & licenses _____

Tires, maintenance, repair _____

Food _____

Clothing _____

Medical _____

Health insurance _____

Doctor _____

Dentist _____

Prescriptions _____

Life/disability insurance _____

Child care expenses _____

Child support/alimony paid _____

Recreation, hobbies _____

Personal care _____

Education, books _____

Bank loans _____

Charge accounts/credit cards _____

Gifts _____

Charitable contributions _____

Business/professional expenses _____

Personal allowances _____

Miscellaneous (HOK) _____

Total expenses \$ _____

TOTAL INCOME \$ _____

LESS TOTAL EXPENSES _____

DIFFERENCE \$ _____

WORKSHEET 5: SAVINGS/SPENDING PLAN

From _____ to _____

Income

Gross salary \$ _____
 Interest income _____
 Dividends _____
 Business/profit sharing _____
 Profit from rental property _____
 Profit from sale of assets _____
 Alimony/child support received _____
 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 _____
 Electricity _____
 Property insurance _____
 Household maintenance _____
 Furniture/appliances _____
 Other housing expenses _____
 Savings _____
 Investments _____

Retirement account(s) _____
 Future goals _____

Automobile expenses _____
 Loan payments _____
 Insurance & licenses _____
 Tires & repair _____

Food _____
 Clothing _____
 Medical _____
 Health insurance _____
 Doctor _____
 Dentist _____
 Prescriptions _____

Life/disability insurance _____
 Child care expenses _____
 Child support/alimony paid _____
 Recreation, hobbies _____
 Personal care _____
 Education, books _____
 Bank loans _____
 Charge accounts/credit cards _____
 Gifts _____
 Charitable contributions _____
 Business/professional expenses _____
 Personal allowances _____
 Miscellaneous (HOK) _____

Total expenses \$ _____

