

Net Worth Statements

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Consumer Series | Finance

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A net worth statement is an important financial document. It is a 'financial snapshot' that shows your financial wealth at a given point in time. A net worth statement provides a useful summary of your financial affairs and can measure your financial well-being.

Why should I complete a net worth statement?

A net worth statement is a tool to help you measure progress toward long-term financial goals. You may use one in different ways. It provides an inventory of your assets (what you own) and your liabilities or debts (what you owe).

If you prepare a net worth statement at about the same time each year, you will see how your total net worth changes from year to year. You will want to see if your assets are increasing and your debts are decreasing over time – that is, if you are building wealth. If your net worth has declined from the past year, this may tell you changes are needed for you to live within your income and provide for the future. Having savings, investments, and debts can make it difficult to know if you are spending more money than you have coming in. A net worth statement can help you see your total financial situation.

The estimate of the value of your home and contents may help you decide how much homeowner's insurance you need to purchase. The total of your liquid assets (assets that can be quickly converted to cash) may provide information about how well prepared you are for a financial emergency or loss of income.

You may be asked to fill out or provide a net worth statement when you apply for a home or auto loan, or talk to an estate planner.

If your goal is to analyze your retirement savings, you may be interested in the projected future values of your investments. Your financial advisor should be able to help you estimate the value of investments at some time in the future using current values on your net worth statement.

Step 1: Calculate the value of your assets.

List all of your assets (what you own) on the net worth statement worksheet. Use the current market value or today's dollar value for each item. This is the amount you could sell the asset for today, not what it cost when it was new.

- The cash value of a whole life insurance policy 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.
- Any bank or other vendor of U.S. Savings Bonds can tell you the current value of your bonds. You can also price them online at www.savingsbonds.com.
- The daily values of mutual funds, stocks, and bonds are quoted each day in larger newspapers and the *Wall Street Journal*. Values are also available on quarterly reports. Many brokerage firms post share and fund prices on their Web site and are accessible with your personal identification number (PIN).
- Annuity values are available in annual reports or quarterly statements, or from your broker or



Quick Facts

- A net worth statement is a financial snapshot that shows your financial wealth at a given point in time and provides a useful summary of your financial affairs
- Your net worth is the difference between your assets (what you own) minus your debts (what you owe).
- If you prepare a net worth statement at about the same time each year, you will see how your total net worth changes from year to year. If your net worth has declined from the past year, this may tell you changes are needed for you to live within your income and provide for the future.
- The total of your liquid assets (assets that can be quickly converted to cash) may provide information about how well prepared you are for a financial emergency or loss of income.

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insurance agent. Human resource officers at places of employment should be able to tell you the amount you have contributed to your pension, 401(k), 403(b), or 457 plan(s).

- Car values are published by the National Automobile Dealers Association and by Kelly Blue Book. These publications are available in most libraries, at car dealerships, and at lending institutions. You can also find sites on the Internet that list auto values.
- Estimate the value of household furnishings and appliances by using information from second-hand shops and from classified ads. Use conservative estimates because it is not always easy to sell used possessions.
- The value of collections, jewelry, furs, and guns can be estimated by dealers.

Step 2: Calculate your liabilities.

List all of your debts or liabilities (what you owe) on the net worth statement worksheet. Use the most up-to-date amounts.

- The balance owed on installment debts or credit cards is listed on monthly statements. If not, the balance can be obtained from the creditor. The principal owed on a mortgage or real estate loan is available from the mortgage lender. Remember to also list second mortgages or home equity credit line loans.

Step 3. Subtract the value of your liabilities from the value of your assets to determine your net worth.

Ideas to Increase Your Net Worth

- Cut back on spending.
- Increase savings.
- Increase contributions to retirement accounts.
- Pay off debts.

Step 4. Monitor your net worth annually.

Complete another net worth statement worksheet in about one year and compare the two statements. Completing one each year at about the same time will help you monitor your financial well-being.

Recommended Financial Benchmarks

If you are comparing yourself to recommended financial benchmarks, consider one suggestion from the book, *The Millionaire Next Door*. Authors Stanley and Danko (1996) suggest that your net worth should be the figure that results when you multiply your age times your gross income (from all sources) and divide by ten. For example, a 40-year-old with \$40,000 in gross annual income should have a net worth of \$160,000.

$$40 \times \$40,000 = \$1,600,000 \div 10 = \$160,000$$

Net Worth Statement Worksheet

Assets (What You Own)		Liabilities (What You Owe)	
Cash:		Current Debts:	
Cash On Hand		Household	
Checking Accounts		Medical or Other Current Bills	
Savings Accounts		Credit Cards	
Money Market Funds		Department Store/Gas Cards	
Cash Value of Life Insurance		Loan on Cash Value Life Insurance	
Other		Legal	
		Taxes Due or Back Taxes	
		Other	
Real Estate/Property:		Mortgages:	
Home(s)		Home(s)	
Land		Land	
Other		Other	
Investments: (Current Value)		Loans:	
Certificates of Deposit (CDs)		Bank/Finance Company	
Savings Bonds		Bank/Finance Company	
Stocks		Education/Student Loan(s)	
Municipal Bonds			
Corporate Bonds			
Government Securities			
Mutual Funds			
Annuities			
IRAs, Roth IRAs			
401(k), 403(b), 457 Plans			
Pension Plan(s)			
Ownership in Business		Business Loans	
Loans Owed to You		Personal (from family or friends)	
Other			
Personal Property: (Current Value)			
Automobile(s)		Automobile Loan(s)	
Recreational Vehicle/Boat		Recreational Vehicle/Boat Loan	
Household Furnishings		Pledges: Charities, Religious	
Appliances/Furniture			
Collectables		Other	
Jewelry/Furs/Guns		Other	
Other		Other	
Total Assets		Total Liabilities	

Total Assets \$ _____ - Total Liabilities \$ _____ = Net Worth \$ _____