How to Calculate Your Net Worth

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One way to plan your financial future is to calculate your net worth once a year. Annual net worth statements measure your financial progress. After assembling the information necessary for the first one, it is simple to update it each year. Many people find their total financial worth greater than expected if they have never calculated it before.

WHAT IS A NET WORTH STATEMENT?

A net worth statement is a way to measure your overall financial position. It compares assets (what you own) and liabilities (what you owe).

Assets are cash and items that have substantial value. Examples are savings accounts, a home, other real estate, cash value of life insurance, retirement or profit-sharing plans, cars, stocks and bonds, and other possessions that can be converted to cash.

Liabilities are monies that you owe. These can include the unpaid balance of a home mortgage, other mortgages, balance of automobile loans, installment debts, outstanding charge accounts, unpaid bills, and unpaid taxes. The difference between assets and liabilities is your net worth or net indebtedness (negative net worth).

Young couples sometimes find they have a negative net worth. When they are in the process of establishing a home and acquiring possessions, their debts can be greater than their assets.

Some assets may appreciate or gain value, such as your home, stocks, or retirement plan. Others depreciate or lose value, such as automobiles or furniture. Your net worth will change periodically depending on the appreciation

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or depreciation of your possessions and property, the amount of assets accumulated, and the amount of debt you incur.

Example: You currently have $25,000 in your money market account, have a home worth $160,000, own a $10,000 car (current value), and have other personal assets worth $15,000. In addition, you have a remaining mortgage balance of $120,000 and you have $4,000 of credit card debt. What is your net worth?

Own (+): $25,000 + $160,000 + $10,000 + $15,000 = $210,000
Owe (–): $120,000 + $4,000 = $124,000
Total Net Worth: $210,000 – $124,000 = **$86,000**

WHY MAKE A NET WORTH STATEMENT?

A net worth statement is an important tool in analyzing your financial situation and checking your financial progress. It will show whether you are getting ahead financially. It gives you an overview of your situation and can serve as a guide in budgeting your expenditures and analyzing your credit use. Have you increased your assets to increase your worth, or have you taken on additional debts that reduce your worth?

It is useful for making financial decisions about savings, amount of insurance needed, investment plans, retirement goals, and estate planning. It makes estate settlement easier for survivors. Overall, it is a guide to help establish financial goals and manage money to achieve those goals.

When should you make a net worth statement? Start now by using the form in this publication as a guide. Then select a time to update it each year. Many people like to do this in January when they have year-end figures for taxes, but it can be done any time. You can adapt this form to your needs by listing your assets and liabilities on paper or ledger sheets.

HOW TO MAKE A NET WORTH STATEMENT

Your assets should be valued at today's prices or current market value, not what you paid for them. Set the value as what you could receive if you sold them today. If this is your first net worth statement, it may take a little time to get some of the figures. Once one statement is done, it is easy to update it each year. If you are married, then you will combine each other's assets and liabilities.

A home, other real estate, and investments are assets that are most likely to appreciate in value. Ask a real estate agent for an estimate, or you can check prices on similar homes in similar neighborhoods on Zillow.com or Trulia.com. Do not subtract what you owe on your home or other assets; that debt will be listed under liabilities.

Furniture, equipment, automobiles, and other vehicles are usually worth less than what you paid for them unless you have valuable antiques or classics. Be realistic in placing a value on things like furniture. Your beautiful sofa or dining room table is probably just another piece of used furniture to a buyer. For automobiles, recreational vehicles, and boats, check with a dealer or search online at Edmunds.com, Autotrader.com, or kbb.com.

The cash value of life insurance policies, not the face value, is the amount to use. If a cash value table is not included with your policy, ask your insurance agent. For annuities, ask for the surrender value.

Check online or in the financial pages of a large newspaper to get the current value of stocks, mutual funds, and bonds. Call your stock broker if you do not find these in the financial pages.

For company retirement, pension, or profit-sharing plans, use the amount that would be available to you if you should quit your job. Check with your employer or personnel department if you do not have this figure at home.

Be conservative in placing a value on personal possessions. It is probably best to list only items that have a high value, such as expensive jewelry, valuable art, antiques, important collections, and expensive equipment. Items like clothing have little value when sold.

Calculating liabilities is a matter of totaling your debts. Include the amount owed on your home and other real estate. List the outstanding balance on credit card accounts, charge accounts, installment loans, and personal loans. List any current unpaid bills. Subtract your liabilities from your assets to determine your net worth.

Below is an optional worksheet you can use to create your net worth statement. For other examples, see:

- http://www.schwabmoneywise.com/public/file/P-4038856/Net-Worth-Worksheet.pdf
- http://www.washingtonpost.com/wp-srv/business/pdf/networth.pdf

NET WORTH STATEMENT

Date ____________________

ASSESTS

Cash and Savings	
Cash and checking accounts	________
Savings accounts	________
Certificates of deposit	________
U.S. savings bonds	________
Money market accounts	________
Other	________
Total	________

Investment Assets	
Stocks	________
Bonds	________
Mutual funds	________
Government securities	________
Employee stock options	________
Cash value of life insurance	________
Surrender value of annuities	________
Income-producing real estate	________
Total	________

Retirement Assets	
Pension or profit-sharing plans	________
IRAs/Keogh accounts	________
Employee savings plans, 401(k)s	________
Other	________
Total	________

Non-income Earning Assets	
Home (market value)	________
Other non-income real estate	________
Furniture and equipment	________
Autos (market value)	________
Recreational vehicle, boat, etc.	________
Collectibles	________
Jewelry	________
Other	________
Total	________

Total Assets	________

LIABILITIES

Home mortgage	________
Other mortgages or debt	________
Installment debts	________
Credit cards and charge accounts	________
Other loans	________
	________
Taxes not withheld	________
Past due rent, interest	________
Amount borrowed on life insurance	________
Other	________
Total Liabilities	________
NET WORTH (assets minus liabilities)	________

NEGATIVE NET WORTH

According to a New York Federal Reserve study, over 16 million households have a negative net worth, mostly because of a substantial amount of student loan debt. According to the Fed, for households with a negative net worth of –$12,500 to –$46,300, 40% of that debt is student loans (Backman, 2017).

The next contributing factor is mortgage debt. Among the negative net worth population, just 20% own their homes, which means the rest of the negative net worth population is still paying off their home or are renting rather than owning a home (Backman, 2017). Buying and owning a home helps create wealth and contributes toward the assets you own, while renting is only spending your money without generating wealth.

Lastly, health can bring the value of your net worth down. Unprepared health complications can impact at least one member of a family and result in a negative net worth due to expensive medical care.

Reaching a negative net worth means you are spending too much—you are spending more than what you have. You are exceeding your assets with money you owe. With that in mind, it's not hopeless to resolve a negative net worth crisis.

- First and foremost, tackle your debt. Make more than the minimum payments and pay off your debt as soon as possible.
- Choose good investments that will increase your net worth.
- Save for retirement.
- Readjust and reduce your spending.
- Find ways to increase your income.

WHAT SHOULD YOUR NET WORTH LOOK LIKE?

Does a person's net worth vary with their age? Is there a net worth amount a person should have based on their age? The answer to both questions is "yes." A person's net worth is personal and varies based on a person's way of life, but keeping the net worth on a positive scale is what is most important. The way to know if your net worth is in the right place is if you are able to reach your goal in time. Do you want to be a multi-millionaire when you retire? If so, being five years away from your retirement date and having a $10,000 net worth is not a promising start to achieving your goal. Your net worth should look like you are going to achieve your goal, and your goal should have a timeline.

ANALYZE

- Are you acquiring assets that add value or are you using your income for items that depreciate or do not contribute to your overall financial worth?
- Look at your debt load. Is your credit use excessive?
- How financially liquid are you? Do you have assets that can be quickly converted to cash in an emergency?
- Do you have enough income-earning assets to increase your net worth on a regular basis? If most of your assets are non-income-earning, you may need to evaluate your spending patterns.
- Do your assets reflect your goals? If not, what changes should you make?

REFERENCE

Backman, M. 2017, May 14. 16.6 million U.S. households have a negative net worth -- Here's the surprising reason why. *The Motley Fool*. Available at https://www.fool.com/retirement/2017/05/14/166-million-us-households-have-a-negative-net-wort.aspx

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