What is Your Net Worth?

A net worth statement, sometimes called a financial statement, measures wealth or how much we are worth - at one point in time.

What are your assets? Assets include cash and other items of value that can be converted to cash. Some assets are more difficult than others to convert to cash. Be careful not to overvalue personal belongings, such as televisions and furniture as these often lose value over time.

• How much do you have in cash or easily accessed acounts such as savings or checking accounts?

• Some accounts have rules about when you can withdraw money from the account without paying a penalty. These are restricted accounts. Be sure to include these financial assets, such as 401(k) accounts, IRAs, or CDs. • What is the value of your physical assets such as a home, car, or personal items, if you had to sell them quickly? Try to determine the price someone might pay by looking for similar items in the classified ads or other price guide.

What are your liabilities? Liabilities represent your obligation to repay a loan or to make payment to another company or individual. Bills associated with the basic necessities of operating a household, like rent and utilities, are treated as expenses and are not considered a liability.

• To whom do you currently owe money? Consider the loans or debt that can be paid in full in less than one year. This might include credit card payments or even a car loan if there only a few months left on the loan. Perhaps you have a department store account with a low balance. These are your current liabilities.

• To whom do you owe money over the next 1- 5 years? These are your intermediate liabilities such as a three or four year car loan and it may include credit card debt.

• To whom do you owe money beyond 5 years? These are your long term liabilities and include things like student loans and mortgages.

• Now let's calculate your net worth. Your net worth is determined by subtracting liabilities from assets. The difference may be a positive number, a negative number, or zero. A positive balance means if you used all of your assets to eliminate your liabilities you would have money left over. A negative balance means that even if you used all of your assets there would still be some unpaid debt. When the value of your assets exactly equals the liabilities no money will be left and your net worth will show as zero.

When might someone have a negative net worth? It is not unusual for new college graduates to have a negative net worth. A new graduate's assets might consist of a car and some furniture. At the same time this graduate may have several thousand dollars in education loans. This combination can produce a negative net worth.

Are you okay with your net worth? Your net worth is impacted by the assets you hold and liabilities you are obligated to pay.

• You can raise your net worth by increasing the number of assets you have or by increasing the value of the assets that you already have. For example, you can put more of your income into a new Certificate of Deposit or you can increase your IRA contribution amount. The money to make these investments will likely come from your current income. • The other way to improve your net worth is to reduce your debts. Avoid taking on any new debt and pay off as much as you can on existing debt.