



Managing Money & Love

Issue 1: Financial Smarts

Managing Money & Love is an education series that helps you improve financial security and make wise choices.

Have fun and learn to make the most of your money by completing the activities in every newsletter issue. In this issue, you will learn to measure financial health.

Financial health and success seldom happen by accident. The choices we make can affect our financial health over time, just as much as the foods we eat and lifestyle choices we make can affect our physical health. How is your financial health?

Answer the following questions to assess your basic financial health:

- **Do you spend less** than you earn?
- **Do you spend no more than 15 to 20 percent** of your monthly income for credit payments, including car payments, credit cards and all other debts (not including your house payment or mortgage)?
- **Do you have an emergency savings fund** to cover one to three months of your living expenses?
- **Are your financial records organized** so you can pay bills on time and find important papers when you need them?

If you answered “yes” to all of the questions above, your finances should be in good shape! If you do not know the answers or you answered “no” to some questions, your financial health may be suffering. You will want to pay special attention to completing the financial fitness exercises in future newsletters to address these issues.



Prescription for Financial Health

Circle actions you will take to work on improving your financial health:

1. Balance spending with income (spend no more than is earned).
2. Reduce spending.
3. Keep debt (not including home) to 15 percent of income or less, or 35 percent including home.
4. Reduce debt.
5. Be free of debt by _____ (date).
6. Increase savings.
7. Save \$_____ (total amount) by depositing \$_____ (amount) each _____ (pay period, week, month).

Measuring Wealth

Increasing wealth can be accomplished in at least two ways. For some, it means adding to savings or investments. For others, the first step toward increasing wealth is to eliminate or reduce debt. How is wealth measured?

A net worth statement, sometimes called a financial statement, measures wealth. Like a photo, it gives us a clear picture of our financial health and wealth – or how much we are worth – at one point in time. Most families start out with a negative or very small net worth that continues to grow through mid-life and then begins to shrink as we age into retirement.

Lenders usually require a net worth statement when you apply for a home loan or try to renegotiate debts. This information may also be required for legal matters such as divorce, child support orders, bankruptcy or succession after death.

A net worth statement has two parts: what you own (also called assets) and what you owe (debts or liabilities).

How much do you **OWN?** (Assets)

1. List all of the assets you own, including bank account balances and investments, as well as the current value of your home, real estate and other personal property.
2. Add values of each asset to get a total dollar value of what you own.



How much do you **OWE?** (Liabilities)

3. List the total outstanding balance of each debt you owe, including your home mortgage, car loan and other credit accounts. Be sure to include unpaid overdue balances on utility, medical or other bills.
4. Add all debts to get a total dollar amount of your liabilities.

What is your **NET WORTH?**

5. Subtract total liabilities you owe from total assets you own to figure your total net worth. If you owe more than you own, your net worth will be a negative number.

Begin working on a net worth statement to get a picture of your current financial health. Use the net worth worksheet in this issue or look for the University of Arkansas Division of Agriculture, Cooperative Extension Service Net Worth Statement, available with other publications on the Extension web site at www.uaex.uada.edu.

Net Worth Rises With Age and Income

The following charts provide an average net worth by age and by household income.

How does what you are worth compare with families of similar age and income?

Circle your age in the first chart and your family income in the second. Are you average?

Age	Average Net Worth
Less than 35	\$11,400
35-44	\$48,500
45-54	\$90,500
55-64	\$110,800
65-74	\$104,100
75 and more	\$95,000

Household Income	Average Net Worth
Less than \$10,000	\$4,800
\$10,000 - \$24,999	\$30,000
\$25,000 - \$49,999	\$54,900
\$50,000 - \$99,999	\$121,100
\$100,00 and more	\$485,900

*From Federal Reserve Survey of Consumer Finances

Record Daily Spending

Write down every cent you spend this week on an index card or small tablet. Have each person in your family do the same. You will use these records for activities in the coming issues.



Track Income and Expenses

Begin collecting all pay stubs, bills and receipts to track all spending and income received for a month. This helps you create a spending plan later for a financially healthy future.

References

Barbara O'Neil, Ph.D., CFP
Rutgers Cooperative Extension

Dena Wise, Ph.D., Assistant Professor - Family Financial Management, University of Tennessee Agricultural Extension Service

Jeanette A. Tucker, Ph.D., Associate Professor/Family Economics Specialist, Louisiana Cooperative Extension Service

Net Worth Statement

Beverly R. Howell, Ph.D.
State Program Leader - Family and Consumer Sciences, Mississippi State University Extension Service

Take Stock of Family Resources

Barbara R. Rowe, Ph.D., Professor and Family Resource Management Specialist, Utah State University

Personal Financial Choices: Setting a New Course, Chapter 7 Resource Guide, VISA USA, Inc.

What Are You Worth?

VISA Practical Money Skills for Life, retrieved 10/12/05
http://www.practicalmoneyskills.com/english/at_home/consumers/debt/worth/net.php

Net Worth Statement

ASSETS (What You Own)	\$ Amount	LIABILITIES (What You Owe)	\$ Amount
Balance in checking account		Home mortgage (balance owed)	
Bank savings		Other real estate mortgages	
Cash on hand		Notes to bank or others	
Current market value of stocks, bonds, etc.		Amount borrowed on life insurance	
Current market value of other securities		Medical and dental debts	
Life insurance – cash value		Unpaid installments (total balance due)	
Market value of		Home	
Home		Furniture	
Other real estate		Farm or business equipment	
Notes, accounts due		Taxes due	
Inventory value of farm or business		Other debts:	
Market value of durable possessions			
Automobile			
Mobile home			
Appliances			
Musical instruments			
Jewelry			
Other			
TOTAL		TOTAL	
Total assets minus total liabilities = Total Net Worth			_____
Net Worth _____		Date _____ 20_____	

in the next issue: **Finding Extra Income**

Adapted from *Marriage and Money* by Joy Buffalo, Pulaski County family and consumer sciences agent with the University of Arkansas Division of Agriculture, Cooperative Extension Service; *Healthy, Wealthy and Wise* by Joy Buffalo and Dr. Bobbie Shaffett, family resource management specialist with Mississippi State University Extension Service.

Managing Money & Love newsletters are authored by **LAURA CONNERLY**, assistant professor, and **DR. JAMES MARSHALL**, associate professor - family life specialist, University of Arkansas Division of Agriculture, Cooperative Extension Service.

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