What is Your Net Worth?

The greater your net worth, the bigger your safety net will be in case you lose your job or have an emergency. Think of this as your money snapshot and use it to help you manage your money better.

Step One:

Calculate Your Net Worth

Assets

(Calculate your assets by adding up everything you own, including the current value of any assets like a car or home)

Checking Accounts

Savings Accounts

IRA's

Stocks & Bonds

Car(s)

House

Other (Land or Rental Property)

Total Assets:

Liabilities

(Add together the total money you owe – not just the amount of your monthly payments. Then subtract that from your assets to determine your total net worth.)

Credit Card Debt

Mortgage Loans

Student Loans

Car Loans

Other Debt

Total Liabilities:

Net Worth (Assets – Liabilities)

Got a net worth that is a negative number?

Start paying down your debt. I prefer the debt snowball method that is favorited by Dave Ramsey in *The Total Money Makeover*, but use whatever method makes paying off your debt easier. Usually credit cards are the easier debt to work on first as they usually have a lower balance than your car, student, or home loans. Pick the debt with the smallest balance and create a plan to pay off that debt first and then slowly working your way up to the larger debts.

Got a net worth that is a positive number?

You are in a good place but make sure that you are growing that net worth over time and that you avoid sinking into debt. (I'm a huge fan of being 100% debt-free and I believe being debt-free is the only way to live, but I understand that this is not the choice of everyone. Just make sure that you are keeping your net worth a high positive number – you'll be better off come retirement or when an emergency pops up.)

Things to make sure you keep your long-term investments happy:

Emergency Fund – *this is strictly for emergencies only like losing your job or a serious health issue. This is not for a new washing machine.*

Budget – *yes, you need to have a budget. You need to know where and how your money is being spent every month. Make your money work for you, not the other way around. (If you need help figuring out how to create a budget, my book* Build a Budget that Works *will give you all the practical steps to developing a budget.)*

Repeat this Calculation – *make a commitment to repeating this calculation every year. It will help you see how you are doing overall and help to keep your net worth high.*

Step Two:

Calculate Your Savings

Find your yearly expenses by adding up everything you spent money on this year. Then subtract the total from your income to determine how much you are saving:

Figure out your after-tax income (take-home pay). You can calculate this number by adding up your actual paychecks or go to http://www.calculator.net/take-home-pay-calculator.html to calculate your after-tax income.

Credit Card Bills

Checks Written

Cash Withdrawn

After Tax Income		**= Expenses**		**SAVINGS**
	-		=	

The figure you end up with in the "SAVINGS" box ***should be at least 20%*** of your after tax income. Anything below 10% is a red flag unless the amount is lower due to contributing before tax dollars towards a 401(k) or other company savings plan.

What to do if you are not saving enough...

Use the 50/20/30 budget method *(you can read more details about it here) – 50% for essentials like food and housing, 20% for savings and 30% for lifestyle/wants.*

Automate your savings – *set up with your bank an automatic savings withdraw. You can start with 5% of your after-tax income and gradually increase that amount as you learn to budget your money. I prefer to keep our emergency fund at another bank that is not our regular bank. (We use Capital One 360 for our emergency fund.)*

What to do if you are saving enough...

Make sure you have an emergency fund – *even if you are saving 20% of your after tax income make sure that a portion of that is allocated towards an emergency fund. An emergency fund is in case you lose your job or for significant medical expenses. Having an account designated strictly for emergencies is a blessing for your family.*

Max out your retirement contributions – *if your company has a 401(k) and matches your contribution, make sure you are taking advantage of the max contribution. This will help to increase your retirement without increasing the amount being withheld from your paycheck.*