Building Wealth

“Meeting Your Financial Goals”

Life Smarts:

1. Complete two Net Worth Statements.
2. Write SMART financial goals.
3. Identify your personality financial type.

The first step in building wealth is to determine and track how much money you are making and spending. Determining these amounts will allow you to set up a budget and identify how much money will be needed to pay your bills and save for the future. Of course, establishing goals will also help this process. There are two important time frames for establishing financial goals.

The first is known as a **short-term** goal, which is reached in one year or less.

Example: Save $200 in the next 10 months to purchase a cell phone. A **long-term** goal is any goal that takes more than one year to accomplish.

Example: Save $5,000 a year for two years in order to have $10,000 for a down payment on a house.

So what is a budget? A **budget** is an estimate, often listed by the type of expected income and expenses for a given time period in the future. **Income** includes wages earned from a job, birthday money received from your grandma, an allowance; any “IN” coming money. **Expenses** include any money owed or going “out,” for example, payments for your car insurance, buying clothes, or paying for your monthly cell phone bill. A budget will help you decide how much to save and invest. It helps you to determine how much money is available to pay off expenses, also known as **debt**. Preparing a budget provides an idea of how much money must be set aside to buy a car or pay the monthly rental on an apartment. A budget can also assist in planning for the purchase of a home and putting money away for retirement.

1. What is a budget?

   Answer: An estimate that includes expected income and expenses for a given time period in the future.

2. Why is it important to prepare a personal budget?

   Answers will vary.

What does wealth mean to you?

What does wealth mean to you? Most people think of **wealth** as “tangible” item, such as a wallet full of money, valuable possessions, or property. Although having a big house and nice cars may indicate wealth, it doesn’t mean you can afford to own them.

Wealth can mean many different things. For example, it may include “intangible” items, such as having a happy family and lots of friends, or obtaining a good job. In financial terms, wealth can mean having more money than you know what to do with, living modestly (comfortably), or being able to pay your bills on time. When planning for wealth, you should save a minimum of eight months of expenses. For example, if your bills total $1,500 per month, you should have approximately $12,000 ($1,500 x 8 months) saved in an account that is easily accessible in case of emergency.

Some requirements for building wealth

1. What does wealth mean to you?

   Answers will vary.

2. Differentiate between "tangible" and "intangible" wealth.

   Answer: Tangible is physical and materialistic. Intangible can relate to personal relationships.

In order to build wealth, you need to be disciplined. Once your income and expenses are determined and a budget is prepared, you will have a better idea of how much money to save. In fact, this amount should be included as a line-item called "**Savings**." **Investing** means spending money in the hopes of a future benefit. Savings may be used for investment purposes, but first, you must educate yourself about the different ways to invest money. Purchasing stocks, a mutual fund, or real estate are all examples of investment. Over time, you hope to make money on your original purchase. You might consider investing for the purchase of a home, a car, or investing for retirement. After determining how much to save and for what, you must control and protect that wealth. **Controlling** means periodically checking to see how much your investments are earning and if you are meeting your goals. If not, some adjustments in your budget may be required. Lastly, ensure that you are **protecting** your wealth from creditors, fraud, poor decision-making, or a potential lawsuit.

Net worth

Life Smarts: Complete a Net Worth Statement - Attached

As discussed above, setting financial goals is critical to building wealth. As you increase your wealth, your net worth increases. **Net worth** refers to how much you are worth. Net worth is calculated by subtracting what you owe (liabilities) from what you own (assets).

Net Worth = Assets – Liabilities

Assets are items that you own that can be converted into cash; **liabilities** are considered monies owed, known as debt. Owning a home, property, and vehicles all increase your net worth. Staying away from debt (owing people and businesses) also increases your net worth.

In the space below, indicate your desired net worth at various stages in your life. You may use the attached "Net Worth Worksheet" to guide you.

Estimate your desired net worth at each of the following ages.

Answers will vary.

Age 25:

Age 35:

Age 45:

Setting SMART goals to build wealth

Like budgeting, setting goals is crucial to building wealth. It provides a "how to" guide for reaching your financial goals. These financial goals, also known as **SMART** goals, should include the following characteristics:

S – Goals should be **specific**. Determine exactly what it is you want.

M – Goals should be **measurable**. Determine the value of your goal.

A – Goals should be **attainable**. Ask yourself: Is this a realistic goal that I can achieve?

R – Goals should be **relevant**. Is the goal something that is necessary, or can it wait?

T – Goals should be **time-bound**. Set a date as to when you intend to meet the goal.

Developing a SMART goal involves gathering facts before actually writing your goal. For example, the facts for “wanting to go to the prom” might look like this:

S = I want to go to the prom.

M = Total costs for attending the prom are $250. I will save $25 per week for 10 weeks.

A = Yes. My part-time job will provide more than enough income to cover prom expenses.

R = Yes. I am a graduating senior. This will be my last chance to attend the prom.

T = April 1st is the deadline for paying for all prom expenses. Following my proposed savings plan, I will save enough money to pay all my debts by the last week of March.

Combining the facts, your short-term SMART goal would look like this:

I want to attend prom. I will need to save $250 by April 1 to pay for everything. I will save $25 per week for 10 weeks.

Life Smarts: Learn to write your goals!

Write a SMART goal for one of the following events:

1. Purchasing clothes OR
2. Eating out

SMART goal:____________________Answers will vary.___________________________________

Determine the SMART elements of the goal you selected. List below: Answers will vary.

S =

M =

A =

R =

T =

Lastly, when setting goals, we always think about what we are giving up to get something else. This is known as the **trade-off**. In the goal you chose to write above, what might you have given up to buy clothes or take a short trip? For example, you might have given up going to the movies with your friends so that you can save for the trip. If you choose not to go to the movies (so you can go on a trip), what value did you give up by choosing the trip over the movie? This is known as the **opportunity cost**. The opportunity cost is the price of the admission fee plus any food you might have purchased.

1. What would have been some of your trade-offs in the goal you selected above?

Answers will vary.

2. What would have been the opportunity costs for making those trade-offs?

Answers will vary

Financial personality types

Knowing your financial personality type will help you later in life. The four types consist of planners, strugglers, deniers, and impulsive personalities. **Planners** are people who always plan out finances. They set goals, prepare budgets, and try hard to follow them. **Strugglers** don't plan or set budgets. They usually live paycheck to paycheck and most of the time struggle to get ahead financially. **Deniers** are somewhat similar to strugglers with the exception that they don't live paycheck to paycheck. Deniers fall deeper and deeper into debt, because they deny they have a money problem. They usually spend more than they can afford. When bills come due, they neglect to view them, put them in a drawer, or throw them away. Lastly, there are **impulsives**, who make impulse purchases. They rarely plan or budget. They purchase without hesitation. It's better to have a list when you shop to prevent impulse buying.

- Tina is a single parent with two children. She has to budget to live on a modest income. She started putting her money in a mutual fund when her first child was born, for his education. She purchased a home and provides solely for her children. What is Tina's financial personality type?
- Tom likes to spend money on things that appeal to him without planning. He makes good money but his bank account tells a different story. He has no savings or investments, owns no property, and lives paycheck to paycheck. He has no budget. What type of financial personality does Tom have?

Life Smarts: What is your personality type?

In the space below, write a five-sentence paragraph explaining your financial personality type. Give specific examples to support your selection.

Tips on saving

Here are a few tips you should consider as you think about building wealth.

- Write out a plan so you have access to it all the time.
- Save a certain amount every week, two weeks, or monthly.
- Have money electronically transferred automatically to a savings, checking, or retirement account.
- Hint**:**
    - The first hour of pay you get from working should go into savings. **(Pay Yourself First)**
    - Try and save a minimum of 20% of what you make at work.
    - The earlier you begin saving, the more you will accumulate.

Compound effect

The chart below shows the compound impact of saving. Starting to save now allows you to accumulate more wealth as you get older.

If you begin to save money while you are young, your money will grow with interest. **Interest** is the amount of money that is added on to the original amount (**principal**) that you saved or invested. For example, if you deposited $100 into a savings account and left it there, in a year your savings account might have $103.00. The $3.00 ($103.00 - $100) is referred to as the interest. At the end of year two, your account balance might be $108.00. You earned another $5 on top of the $103 that you had in your account at the end of year one. As you can see, you begin to earn interest on interest. This is referred to as compound interest. **Compound interest** is interest earned on both principal and interest. As the years go by, your compound interest begins to multiply faster; thus, you begin to accumulate more wealth.

The table below shows the compound impact of saving.

Initial Investment = $10,000

Time	Rate of Growth					
(Years)	5%	6%	10%	11%	15%	20%
5	12,763	13,382	16,105	16,851	20,114	24,883
10	16,289	17,908	25,937	28,394	40,456	61,917
15	20,789	23,966	41,772	47,846	81,371	154,070
20	26,533	32,071	67,275	80,623	163,665	383,376
25	33,864	42,919	108,347	135,855	329,190	953,962
30	43,219	57,435	174,494	228,923	662,118	2,373,763
35	55,160	76,861	281,024	385,749	1,331,755	5,906,682
40	70,400	102,857	452,593	650,009	2,678,635	14,697,716

The Rule of 72

The **Rule of 72** is something that you should memorize when it comes to building wealth and letting your money work for you. The rule shows you how to compute how long it will take to double your money, given an interest rate or number of years. Here's how it works:

If you have an interest rate, divide it into 72 to compute how many years it will take to double your money.

Example: If you invest some money earning 8% interest, it will take 9 years (72 ÷ 8) to double your money.

In contrast, if you know how long you want to take to double your money, simply divide the number of years into 72.

Example: If you want to double your money in 4 years, you will need to invest it at 18% (72 ÷ 4) Interest for it to double in 4 years.

1. How long will it take you to double your money if you invest it earning 3.5% interest?

Answer: 20.57 years

2. What interest rate must you earn in order to double your money in 10 years?

Answer: 7.2%

Transferring your wealth – wills, trusts, and estates

A **trust** is a legal way to have an independent party hold and manage a title to property or assets for the benefit of a beneficiary (a named person who inherits your assets). A trust is usually set up if the **trustor**, the person setting up the trust, wants the assets to be given to a beneficiary at some point in the future with certain guidelines. There are two types of trusts, a living trust and a testamentary trust. **Living trusts** are in effect during the trustor's lifetime; a **testamentary trust** is created through a will of a deceased person.

A **will** is a legal document that transfers a person's assets to a beneficiary upon death. If you die and don't have a will, your property will be divided up according to the state. This could mean that the people you would like to get your assets may not necessarily get them.

Your **estate** refers to the value of all of your assets at any point in time. Prior to your death, you should legally determine who should receive your estate when you die. You should hire a lawyer to set this up so that your estate goes to the people that you want to receive it. You can divide up your estate and give certain things to certain people. Two ways to distribute your assets and/or estate are through a will or a trust.

Having a sound strategy for protecting the assets you have built will ensure that the wealth you have created will be there for you and your loved ones.

Activity: For each initial investment below, calculate the amount accumulated over time given the following factors for each. Use http://www.interestcalc.org/ to determine the amount.

Initial Investment	Interest Rate	Regular Investment (per month)	Years	Compounded	Amount
$1,000	5%	$50	10	Monthly	**$9,443.47**
$1,000	5%	$50	20	Monthly	**$23,349.96**
$1,000	5%	$50	30	Monthly	**$46,254.06**
$1,000	5%	$200	10	Monthly	**$32,832.87**
$1,000	5%	$200	20	Monthly	**$85,261.90**
$1,000	5%	$200	30	Monthly	**$171,613.02**

Net Worth Statement #1

A **Net Worth Statement** is a snapshot of your financial situation that allows you to track your progress financially. Just like a marathon runner running for their personal best, you need to focus your attention on your financial numbers. Your net worth will change from year to year. By evaluating your net worth periodically (once per year), you can tell if you are accomplishing your financial goals or if some changes are in order.

Recall from the section above that **Net Worth = Total Assets – Liabilities**. Preferably your net worth is a positive number. This would imply that you own more than you owe. If it is a negative number, you might consider making some financial changes down the road.

Using the information below, complete the attached net worth statement:

Imagine you are in your late forties and have been working in a career of your choice for several years now. You have made some great financial choices and have accumulated lots of wealth. You are currently earning $120,000 per year. You're married with two children. One child is in middle school; the other child is in the fourth grade. Your spouse also works and earns around $50,000 per year. You have accumulated lots of assets and some debts. You are considering getting a loan from a financial institution, and it requested that you complete a net worth statement. After gathering all of the data below, you are now ready to prepare the net worth statement.

You determined that you and your spouse have $350 in cash on hand. Your bank accounts are currently showing $3,200 in checking, $8,200 in savings, and $15,000 in a money market fund. You also have a cash value of $50,000 in a life insurance policy. As for Real Estate/Property values, your home is worth $350,000; however, you still owe $250,000 on it. (Hint: $100,000 of the home is considered an asset, while the $250,000 you owe is considered the mortgage.) You have no other real estate or land that you own. Because you learned a great deal about finances in school, you and your spouse were wise enough to begin investing early. The following balances are the amounts you have in investments: $42,000 in stocks; $20,000 in bonds; $35,000 in mutual funds; $12,000 in IRAs; $38,000 in a 401(k); and $8,000 in a pension plan.

You and your spouse each have a vehicle. One of the vehicles was given to you by your brother; the other vehicle was purchased two years ago for $28,000 and you still owe $16,000. All of your home furnishings were purchased when you first bought your home; however, you recently purchased a new refrigerator, dishwasher, washing machine, and dryer. These appliances totaled $2,800. Last, you and your spouse accumulated jewelry worth around $7,200 and some art that have a total value of $12,200. In looking at what you and your spouse owe, you determined that you have $2,400 in medical bills and $7,800 on credit cards. You have a mortgage on your house and the vehicle loan mentioned above. You took out a couple of loans, one from a bank and another from a credit union, to do home remodeling that amounted to $4,500 and $2,800, respectively. Both you and your spouse also have outstanding college loans of $18,200. You have no other outstanding debt.

Net Worth Calculation, Worksheet #1

An important step in gaining financial control is to calculate your net worth (assets - debts). Every year, your net worth should be computed to review your progress and compare it with your financial goals. In addition, a net worth statement is a valuable aid in planning your estate and establishing a record for loan and insurance purposes.

Net Worth Calculation, Worksheet #1

Assets (What You Own)		Liabilities (What You Owe)	
Cash:		**Current Debts:**	
Cash On Hand	350.00	Household	
Checking Account	2,200.00	Medical	2,400.00
Savings Accounts	8,200.00	Credit Cards	7,800.00
Money Market Funds	15,000.00	Retail Store Cards	
Cash Value of Life Insurance	50,000.00	Back Taxes	
Other		Legal	
Real Estate/Property:		Other	
Home	100,000.00		
Land			
Other		**Mortgages:**	
Investments: (Market Value)		Home	250,000.00
Certificates of Deposit		Land	
Stocks	42,000.00	Other	
Bonds	20,000.00		
Mutual Funds	35,000.00		
Annuities		**Loans:**	
IRAs	38,000.00	Bank/Finance	4,500.00
401(k), 403(b), 457 Plans	8,000.00	Bank/Finance	2,800.00
Pension Plan		Automobile	16,000.00
Other		Recreational/Vehicle	
Personal Property: (Present Value)		Education	18,200.00
Automobiles	12,000.00	Life Insurance	
Recreational Vehicle/Boat		Personal	
Home Furnishings		Other	
Appliances and Furniture	2,800.00		
Collections	12,200.00		
Jewelry and Furs	7,200.00		
Other			
Total Assets	365,950.00	**Total Liabilities**	301,700.00

Total Assets — Total Liabilities = Net Worth **64,250.00**

Net Worth Statement #2

Current Financial Status in New Mexico

A recent U.S. Census stated that the median household income for New Mexico was $44,631. The average mortgage debt in Albuquerque was $157,537 (as of May 8, 2013) according to Albuquerque's Business and Economic website. In addition, *CNN Money* reported that the average New Mexico household owed $6,820 in credit card debt in 2011.

In the following scenario, the couple does not own a home but exhibits many of the financial characteristics of a typical young couple in New Mexico. Using the attached worksheet, calculate their net worth.

Joe and Susan are in their late twenties, have been married for two years, and have no children. Joe works for the local school district as a Level 2 Maintenance and Operations laborer and has worked for two different schools over the last seven years. He works 260 days per year at an annual salary of $34,817 and is paid bi-weekly. He invests $50 bi-weekly in a 403(b) account currently valued at $9,100.

Susan works as a part-time hostess at a restaurant near the community college campus where she also attends school part time. She makes $9,690 per year with no benefits. She would like a better-paying job, but her employer is flexible with her schedule as she completes a two-term Phlebotomy Technician program. She charged $500 on her credit card recently to cover tuition, fees, and books. This is in addition to the existing balance of $6,325 (to cover unanticipated medical expenses and holiday gifts).

Joe and Susan rent a one-bedroom apartment a few blocks from the community college campus, which enables Susan to walk to classes. Their rent is $655 a month with seven months remaining on their lease. They own bedroom and living room furniture valued at $1,895 and a sewing machine with cabinet valued at $2,025. Their sporting and camping equipment is valued at $1,250.

Joe drives a 1995 Toyota 4Runner with 175,000 miles that is currently valued at $4,425 on NADA Guides. He secured a loan from Nusenda Credit Union and currently owes $3,425. Susan walks and uses the city bus for her transportation needs.

Their remaining assets include:

Cash on hand = $75; cash in checking account = $532.32; and savings = $1,965.40.

Compare and Contrast Net Worth Statements 1 & 2:

After completing the Net Worth Calculation Worksheet #2, make a list comparing and contrasting the two scenarios. In your list, explain the difference in income and expenses. Also elaborate on the difference in the standard of living for both families. Explain what it means to have a positive net worth balance and if having more income precludes you from having a negative net worth balance.

Notes:

Net Worth Calculation, Worksheet #2

An important step in gaining financial control is to calculate your net worth (assets - debts). Every year, your net worth should be tabulated to review your progress and compare it with your financial goals. In addition, a net worth statement is a valuable aid in planning your estate and establishing a record for loan and insurance purposes.

Net Worth Calculation, Worksheet #2

Assets (What You Own)

Cash:

Cash On Hand	75.00
Checking Account	532.32
Savings Accounts	1,965.40
Money Market Funds	
Cash Value of Life Insurance	
Other	

Real Estate/Property:

Home	
Land	
Other	

Investments: (Market Value)

Certificates of Deposit	
Stocks	
Bonds	
Mutual Funds	
Annuities	
IRAs	
401(k), 403(b), 457 Plans	9,100.00
Pension Plan	
Other	

Personal Property: (Present Value)

Automobiles	1,000.00 (4,425-3,425)
Recreational Vehicle/Boat	1,250.00
Home Furnishings	
Appliances and Furniture	3,920.00 (1,895+2,025)
Collections	
Jewelry and Furs	
Other	
Total Assets	17,842.72

Liabilities (What You Owe)

Current Debts:

Household	4,585.00 (655 x 7mo.)
Medical	
Credit Cards	6,825.00
Retail Store Cards	
Back Taxes	
Legal	
Other	

Mortgages:

Home	
Land	
Other	

Loans:

Bank/Finance	
Bank/Finance	
Automobile	3,425.00
Recreational/Vehicle	
Education	
Life Insurance	
Personal	
Other	
Total Liabilities	14,835

Total Assets — Total Liabilities = Net Worth **3,007.72**