



# FINANCIAL PLANNING

## Increasing Your Personal Net Worth

Steve Williams, CPA

**Financial health is a lot like physical health: It requires care and discipline in the present to ensure the best prospect of future well-being. Calculating your net worth is the first step in assessing where your finances may need some therapy.**

**A**s a physician, you typically focus on everything that is required to run your practice. Financially, by contrast, you may be content if your take-home income meets your lifestyle goals. If your practice-management techniques are successful, it is likely that over time you will attain a substantial level of income. Yet is this enough to build wealth? Do you really know the status of your financial health? How are you set for the future, especially in terms of retirement? Earning a high salary and living in a high-end neighborhood are great, but do not reflect your true net worth.

### NET WORTH CALCULATION

Your personal net worth can be viewed as a gauge to help you monitor your overall financial success. By definition, your net worth is the difference between all of your possessions that have monetary value and all of the debts you owe. In financial terms, your net worth is your assets minus your liabilities. Assets are

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**Steve Williams, CPA**, is partner in charge of health care services at HMWC CPAs & Business Advisors in Tustin, California, specializing in consulting services to medical practices, as well as tax and financial planning. He may be contacted at [steve@hmvccpa.com](mailto:steve@hmvccpa.com).

anything you own (including your practice) that has cash, commercial, or exchange value. Assets may also consist of specific properties or claims against others. Liabilities are the sum of all your short-term and long-term debt obligations. If you have more assets than liabilities, you have a “positive” net worth. A “negative” net worth exists when you have more liabilities than assets.

Understanding how to calculate your net worth will help guide your financial planning efforts—eg, retirement planning, estate planning, and college funding for your children or grandchildren. Your net worth is also assessed by lenders when you apply for business loans, a mortgage, various consumer loans, or college financial aid for your children.

To determine your personal net worth, use the spreadsheet provided here (Table). This is essentially a “balance sheet” from a financial analyst’s perspective.

An accountant can help you to prepare such a financial statement, especially in categorizing assets and liabilities, as well as in determining fair valuations. Be realistic when evaluating the current (cash) value of your assets; it is important to avoid overestimating your net worth. Such information can also be used to determine whether you are adequately insured, and can be shared with your insurance company. Each asset should be carefully reviewed for value. For example, it is advisable to use the aftertax value of your marketable securities (stocks and bonds) when calculating their

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**TABLE. Personal Net Worth Calculator**

CATEGORY	CURRENT VALUE
<b>Assets</b>	
Cash in checking accounts	
Certificates of deposit (CDs)	
Cash on hand	
Money market accounts	
Accounts receivable (rent deposits, etc)	
Cash value of life insurance	
Savings bonds (current value)	
Stocks	
Bonds	
Mutual funds	
Vested value of stock options	
Other investments	
Individual retirement accounts (IRAs)	
Keogh accounts	
401(k) or 403(b) accounts	
Other retirement plans	
Market value of your primary residence	
Market value of other real estate	
"Blue Book" value of cars/trucks	
Value of boats, airplanes, other vehicles	
Jewelry	
Collectibles	
Furnishings and other personal property	
Other	
<b>Total Assets</b>	
<b>Liabilities</b>	
Mortgages	
Car loans	
Bank loans	
Student loans	
Home equity loans	
Other loans	
Credit card balances	
Real estate taxes owed	
Income taxes owed	
Other taxes owed	
Other debts	
<b>Total Liabilities</b>	
<b>NET WORTH</b> (total assets minus total liabilities)	

value. Also, if you plan to sell a primary or secondary residence, the true asset value depends on your selling price minus your outstanding mortgage balance, realtor fees, other costs of sale, and (if applicable) capital gains tax.

### APPLYING THE RESULTS

What should you do with your calculation? It is important to understand the nature of your assets. Some assets might look good in terms of your net worth calculation, but may not aid much in building long-term wealth. Assets that help to create wealth appreciate in value over time. Some of these assets can eventually generate income, or at least be sold off to provide income. Assets that help to create wealth include:

- Your practice
- Other business ownership interests
- Bank accounts and certificates of deposit (CDs)
- Stocks, bonds, and mutual fund shares
- Pensions, retirement plans, and individual retirement accounts (IRAs)
- Annuities and cash value of life insurance policies
- Loans receivable (money owed to you)
- Vacation home(s)
- Rental property
- Artwork
- Collectibles.

What assets do not generally create wealth? You might be surprised to find that many items on your balance sheet fail to generate wealth—including personal vehicles, furniture, housewares, and clothing. These are basic living essentials that depreciate in value with time and use. They may technically be assets, but their value is not particularly useful from a financial-planning perspective.

One of the key reasons for calculating your net worth is to determine your financial readiness for your eventual retirement. In this particular scenario, do not include your primary residence or family heirlooms and jewelry in calculating your net worth, unless you plan to sell them to support your retirement.

In reviewing your net worth as a retirement preparation gauge, you will likely find that you are behind in saving for retirement—as is the case with most Americans. Various national

studies by brokerage firms show that many Americans are saving at a rate that is substantially below the amount needed to fund their retirement. This would mean facing a major cut in income that can affect postretirement lifestyle. If your retirement funding is below where it should be, you will need a wealth-creation strategy to reach your goals.

### INCREASING NET WORTH

There are three ways to increase your personal net worth (especially your wealth-creating assets): working, saving, and investing. Your work (ie, practice income) creates earned income, which is used to cover current expenses and fund long-term expenditures—and should also be used for saving and investing. If you are disciplined in your finances, you will save some of your income in various financial vehicles, including retirement plans. This will help you to maintain your standard of living during your “golden years.”

If you have not already done so, formulate a budget.

Track monthly expenses so that you will know where you are spending money. After paying all of your monthly expenses, analyze how much you are saving relative to what you realistically could be saving (which often can be more) in comparison with your long-term financial goals. It is very easy for us to find ways to spend all (or more!) of our take-home income in this economy of consumption. A financial expert can advise you on the best ways to adjust your budget and increase your savings rate.

Savings can also generate portfolio income in the form of interest or dividends. Through saving, we can create assets that can help to replace the need to earn a living. However, over the long term, you may find that certain savings vehicles lose their buying power due to the negative effects of inflation. So, while saving is an essential part of most retirement portfolios, various types of savings vehicles (eg, CDs) may not be sufficient to meet your financial planning goals.

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### Increasing Your Personal Net Worth

Investing can take various forms, ranging from business equity infusions to stocks, bonds, mutual funds, and real estate property. Life insurance can be considered as an investment in a sense, in terms of providing for the future of your loved ones in the event of your untimely demise. Some investment assets generate “passive income” (such as rent on a property or profit from a business venture), which allows you to utilize the negative effect of taxation and inflation to your advantage. For example, rent from property is by far one of the best passive forms of income. Investing in various assets is very much a personal decision, as it involves a number of factors, including:

- Risk adversity
- Economic outlook
- Asset diversification
- Income needs
- Health care costs
- Support required by others from you (eg, children, elderly parents)
- Lifestyle
- Charitable giving.

Developing your personal savings and investment strategies is a crucial aspect of increasing your net worth. You may “get lucky” via an inheritance, lottery ticket, or real estate windfall, but for the majority of individuals it is important to plan for financial success. Over the long term, it is important to periodically reassess your net worth (eg, annually) so you can make adjustments as needed to your wealth-creation strategies.