Asset Building

Asset Building

This session will focus on providing you with both information about this topic as well as new ideas and activities for making the training engaging.
Specifically, during this session you will be:

- Describe the difference between income and assets, and assets, liabilities and equity or net worth.
- Explain how assets, equity and net worth create a financial foundation for you and your family--explain how assets build wealth and economic security.
- Develop a net worth statement.
- Describe the benefits of asset building.
- Identify obstacles to asset building.
- Understanding the reasons this is an important topic

Is “psychology of money or attitudes about money” an important topic to address in financial education for AFI Participants? YES NO

What are some reasons for or against including this topic your financial education program?

The Foundation: Assets[7]

What is an asset?

What are examples of assets?

How are assets related to income?

Another way of looking at assets is to view them as financial or productive. In developing asset building strategies for communities, this may be a more helpful framework.

> ***"People cannot spend their way out of poverty."***
>
> ***--Dr. Michael Sherraden***

- ***What is the difference between a financial asset and a productive asset?***

[7] This entire section (through page 29) is from the Asset Building Institute developed by Inger Giuffrida, 2006 and materials developed by Inger Giuffrida for Citizen Potawatomi Nation.

The Definition of Assets: A Summary

Assets are things you own that have value. There are two really important pieces to that definition: ownership and value. For something to be your asset**, you must own it**, **be able to control it**, and **be able to make decisions about it**. Value means the asset can be exchanged for money.

Saving is the foundation for asset building and wealth creation.

Some assets you can see and touch. These are called physical assets. Here is a list of some common physical assets:

- House
- Condominium
- Car
- Inventory in a business

Your greatest asset is your earning ability.
Your greatest resource is your time.

--Brian Tracy

Assets also can be financial. Common financial assets are:

- Cash
- Savings
- Stocks

Finally, some assets are neither financial nor tangible, but are really important. In fact, these assets help you get other assets. Sometimes, these assets are called productive. They are productive because they help you produce more assets. They include:

- Education
- Skills
- Good work habits

These are the assets you generally "sell" to an employer. You get a paycheck and the employer gets a skilled worker. Investing in education and training is investing in your future-your future ability to earn money to take care of yourself.

Something to Think About: Your Productive Assets
Think about the productive assets you have. Are you a hard worker? Are you able to keep going even when things get tough? Do you have your high school diploma or a training certificate or degree? List your productive assets in the space below.

Small Group Exercise

Look at the list below. Check the box that best describes the kind of asset each item is. If the item is not an asset, put the check in that column.

	Physical	Financial	Productive	Not an Asset
computer				
credit card				
nursing degree				
inventory in a business				
good credit history				
lunch at a restaurant				
an apartment				
on-the-job experience				
savings account				
cell phone				
a house				
cable television				
health insurance				

How Assets Build Wealth and Economic Security

What is the relationship among assets, liabilities and equity?

To understand how assets create wealth, there are two other terms you need to know. The first is liability. A **liability is something you owe**. To get many assets, you often need to borrow money. For example, most people borrow money for education after high school. Most people borrow money to buy a house. Once you borrow money, you have a liability.

The other term is equity. The best way to learn about equity is through an example.

> Suppose Marie decides to buy a car to get to work and to school. Let's say the car is worth $8,500. This means she has an asset worth $8,500. She has saved money and can put $600 down. She must take a loan for $7,900 to make up the balance. She now has a $7,900 liability. In this example, Marie has:
>
> | | |
> |---|---|
> | An asset (the car) = | $8,500 in value |
> | A liability (the auto loan) = | $7,900 |
> | Equity = | $ 600 |
>
> The equity is the part of the asset no one else has a claim to.
>
> Using the car example, if Marie were to sell the car the next day for $8,500, she would have to repay the loan first—the full $1,900. The rest of the money, which is $600, is her equity and the amount she would keep.[8]

Wealth comes from building equity in both physical and financial assets.

Many assets don't require a liability. You don't have to borrow money to build a savings account to set aside money for goals, to create an emergency fund, or save in a college savings fund for you children.

> ***If you would be wealthy, think of saving as well as getting.***
>
> ***--Benjamin Franklin***

Equity from all of your assets added together equals your net worth. It is often your net worth that most truly indicates the financial health of your household. **Net worth is often the source of economic security and economic resiliency and provides peace of mind financially.** You will learn more about figuring out your net worth later in this session.

[8] In reality, she would walk away with a little less than $600 due to transaction costs.

Try with Your Colleagues

Justin decides to purchase a house. He has been saving for 7 years. He has $5,500 saved. He has found a house he wants to buy and thinks he can afford. It is near the clinic where he works as a physician's assistant. Its value and selling price is $122,000.

With his savings, plus community resources to assist first time homebuyers, he has $9,500 for down payment and closing costs. He must borrow $112,500.

➔ **What is his equity the day he buys the house?**

Asset Value	**$**
Liability	**$**
Equity	**$**

A few more examples:

What You Own	Value of the Asset	What You Owe on the Asset	What You Own Outright (Equity)
Savings Account			
Automobile			
Education			
Business			

Appreciation and Depreciation

What is appreciation?

What is depreciation?

Many assets appreciate or increase in value. In fact, this is what most people hope will happen when they invest in an asset.

This does not always happen. Some assets decrease in value. A gradual decrease in value is called depreciation. A few assets always depreciate. A car is an example of an asset that always depreciates with time.

For some assets, it is unknown whether they will increase or decrease. This is the situation with most assets. A house, a business, and investments are examples of assets that could appreciate or depreciate.

It is important to do research before investing in assets such as a house, a business or investments. Research:

- The history of the asset's value (what it's sold for in the past).
- The value of other similar assets.
- Information about what is likely to happen with those kinds of assets (financial news).
- The sales prices of other homes in the same neighborhood In the case of a house. Are they generally increasing? Are they increasing at the same rate?

Try with Your Colleagues

Returning to Justin and his new home, let's see what is equity is after one year and after five years assuming a 1.5%[9] appreciation in the value of his home, which he purchased at $122,000 and regular payment on his loan.

➔ **What is his equity at the end of one year?**

Asset Value	**$ 123,830**
Liability	**$ 111,237**
Equity	**$ -**

➔ **What is his equity at the end of five years?**

Asset Value	**$ 131,429**
Liability	**$ 104,836**
Equity	**$ -**

The Importance of Assets, Equity and Net Worth

Why are assets and building assets, equity and net worth important?

[9] This appreciation rate is for example purposes only and does NOT reflect actual market conditions.

Assets and wealth are important because they provide economic security. What is economic security? Economic security is being able to take care of yourself even if unexpected things happen. Job losses, illness, the breakdown of your car, or having a baby are examples of potentially unexpected things. Assets and wealth they provide through equity and net worth give you with a cushion to handle:

- ➔ **loss of income,**
- ➔ **unexpected expenses or**
- ➔ **new financial responsibilities**

that happen as a result of unexpected things. They help you weather a financial storm.

Assets and wealth also help you in other ways. They help you:

- **Reach your goals**—money you save can be used to go to college or vocational school or send your child for college, get a house, have income in retirement, or start a business.
- **Have options**—assets provide you with options for education, for health care and for where you will live.
- **Reduce stress**—knowing you have assets you can "fall back on" can give you peace of mind**.**
- **Plan**—it has been proven that owning assets helps people plan better for their futures. Motivation for planning for the future comes from being able to envision it.

Assets are hope in concrete form.
--Dr. Michael Sherraden

Net Worth—An Important Measure of Financial Fitness

Have you ever heard the term net worth? Net worth is a measure of someone's financial wealth. Net worth is just:

Assets – Liabilities

It's what you have left after all your liabilities have been paid off.

Net worth is a way to figure out if someone has economic security—the ability to take care of themselves financially. Net worth is the cushion an individual has to fall back on should unexpected things happen to them. Net worth is a better indicator of someone's financial health than their income level.

While net worth sounds difficult, making a net worth statement takes just three steps:

Step 1: List of all of the assets you have, their value and total their values.

How do you figure out the value? In the case of financial assets, you can list the actual value:

- ➔ The amount of money in your pocket
- ➔ The balance in your savings account

For physical assets, you list what you could sell it for:

- ➔ Appraisal value for a house
- ➔ Blue book value for a car
- ➔ Garage sale or Ebay value for household items

Step 2: List of all of the liabilities you have, the amounts you still owe on them and total their values.

Finding Information on Assets

Your records provide you information to complete a net worth statement. Here are some places to find information on assets. Use the most recent information you have available:

- ❑ Statements from financial institutions for checking account and savings account balances
- ❑ Investment account statements for saving in college savings plans, IRAs or other kinds of investment accounts
- ❑ Car title for make and model of car + Blue Book for value of car
- ❑ Public record or appraiser for current value of house.
- ❑ Employment records for total contributions to 401k or 403b

Step 3: Subtract the liabilities from the assets.

Total Assets – Total Liabilities = Net Worth

Finding Information on Liabilities

You need to look at your records to find the value of your liabilities. You want to use the most current balances—what you owe now.

- Credit card statements for current outstanding balances
- Statements for current outstanding balance for any loans—car loans, student loans, personal loans, mortgages
- Any records of money borrowed from friends or family

Small Group Exercise

Use the form below to create a net worth statement for Justin using the following information.

Justin has owned a home for 5 years. The value of his home is $131,429 and he still has an outstanding mortgage liability of $104,836. He has $2,345 in his checking account and $375 in a savings account, which he uses for emergencies.

He has an automobile he purchased used. Its blue book value is currently $2,578. He still owes $3,145 for the automobile, which he purchased using dealer financing.

He has an outstanding credit card balance of $1,378 and a student loan balance of $17,685. He has a lot of furniture and heirlooms handed down from his grandmother including some genuine antiques. He estimates the value of these items to be approximately $7,525.

Assets		
Financial		
Cash	**$ -**	
Savings	**$ -**	
Other	**$ -**	
	$ -	
	$ -	
Subtotal Financial Assets		**$ -**
Physical		
Automobile	**$**	

	-	
Furniture & fixtures	$ -	
Home	$ -	
Other	$ -	
	$ -	
	$ -	
	Subtotal Physical Assets	$ -
Liabilities		
Personal loans	$ -	
Credit card	$ -	
Student loan	$ -	
Other	$ -	
	$ -	
	$ -	
	$ -	
	TOTAL VALUE OF LIABILITIES	$ -
Net Worth		
TOTAL VALUE of ASSETS - TOTAL VALUE of LIABILITIES		

Understanding the Net Worth Number[10]

Net Worth > 0

If the net worth number is greater than zero, you have a positive net worth. This means the value of your assets can cover all of your liabilities, and there is still some left over. This means you have a cushion for financial emergencies.

Net Worth = 0

If the net worth number equals zero, you have zero net worth. This means your assets are just covering your liabilities. You do not have a financial cushion.

Net Worth < 0

If the net worth number is less zero, you have negative net worth. This means your liabilities are greater than your assets, and you don't have a financial cushion to fall back on.

Here is the good news. You can change your net worth!

Net Worth in the U.S.

You may wonder, what is a good net worth? It's a hard question to answer. One answer could be that a good net worth provides economic security even if illness or job loss keep income from coming into the household for a period of time. How much someone needs to live on varies from individual to individual.

Here are some stats about net worth in the U.S.:

- Nearly 1 out of 5 people have zero or negative net worth.
- 1 out of 4 people have net worth equal to or less than $5,000.
- Half of the people in the country had net worth less than $73,500

[10] Net Worth in the U.S. Statistics are from: Working Paper No. 407, Changes in Household Wealth in the 1980s and 1990s in the U.S., by Edward N. Wolff. Published by The Levy Economics Institute of Bard College and New York University, May 2004.

Obstacles for Asset Building

Even if you decide to focus on asset building to achieve economic security, there are still things that can get in your way. These are possible obstacles. Professional planners encourage their clients to anticipate obstacles and make plans should those obstacles occur. It's one of the best ways to ensure obstacles don't take you completely off your path to economic security and financial health.

What do you think are obstacles people experience in getting and building assets?

Something to Try: Your Obstacles to Asset Building
Go back through this list. Circle those obstacles that you think you may experience. Start to think about ways you will manage those obstacles. Write down some of your ideas.

Strategies for Increasing Your Net Worth

What are ideas you have for increasing your net worth AND your economic security?

_____

_____

_____

_____

_____

Here are some ways to increase your net worth:

- **Spend less than you make**—this sounds simple, but it's tough. There are so many pressures to spend. If you spend less than you make, you can save money.

- **Buy less than you can afford**—when buying homes, cars and other things even those that are assets, buy less than you can afford. This provides flexibility and prevents you from becoming overstretched financially.

- **Save**—building savings is building an asset. Whatever you don't spend, save for emergencies and for your goals.

- **Save the maximum employer sponsored retirement programs**—if your employer offers a 401k or 403b retirement savings program, save as much as you can. If they also match some of your contributions, save enough so you get the full match. Not taking advantage of the match is like leaving free money on the table.

- **Avoid unsecured debt, especially credit cards**-- credit cards are one of the top reasons people are not able to build their net worth or their wealth. Remember, a credit card creates a liability; rarely do credit card purchases result in assets, too.

- **Pay down your debts**—paying down debts makes the total liabilities go down. As your liabilities decrease, your net worth increases.

- **Use public benefits**—get help in identifying all of the public benefits for which you may qualify. Using public benefits can increase the total amount of resources flowing into your household. For example, if you can use food stamps for a while, money you would have used for food can be saved.

- **Claim tax credits**—you may qualify for tax credits. Visit a community tax center to get free assistance in filing your taxes. You could end up with over $1000 in refunds depending on your circumstances. Use the refund from the tax credit to build assets.

- **Avoid money drainers**—avoid using check cashers, pay day lenders, rent to own stores and other businesses that offer high costs services.

- **Plot asset building path**—you know economic security comes from assets and net worth. You have already started on an asset building path. Think about your next steps and plan your asset building path.

Tools You Can Use

Develop a net worth statement for yourself and your family using one of the two forms below or an online option. This will give you a picture of your assets, your liabilities and the equity you have in each asset. You can also use this to see how much you increase your net worth through attention to and focus on asset building.

Format 1:
Net Worth Statement for the _____

To get equity for each asset, subtract the corresponding liability IF the asset has one.

Assets	Liabilities	Equity
Checking Account Balance		
Savings		
Individual Development Account		
Savings Bonds		
Certificates of Deposit		
Retirement Accounts		
Investments		
Life Insurance (cash value)		
Car	Auto Loan	
Home	Mortgage	
Personal Possessions	Personal Loans	
Other	Loans/Credit	
	Loans/Credit	
	Credit Card	
	Store/Department Cards	
	Other Installment Loans	
	Educational Loans	
	Other Personal Loans	
	Home Equity Loans or Outstanding Amount on Line of Credit	
	NET WORTH (TOTAL OF EQUITY)	

Format 2:
Net Worth Statement for the _____

Asset	Value
Checking and Savings Accounts (current balance)	$
Individual Development Account	
Savings Bonds	$
Stocks or Mutual Funds	$
Certificates of Deposit (CDs)	$
Retirement Accounts (Pension, 401(k), IRA)	$
Life Insurance Policy (cash value)	$
Car (bluebook value)	$
Other vehicles (motorcycle, motor home, boat, etc.)	$
Home (if owned, use the market value)	$
Personal Possessions (jewelry, antiques, electronics, furnitu appliances, other items that you could sell)	$
Other (money owed to you, cash saved at home, etc.)	$
Total Assets:	$

Liability	Value
Credit card balances (for all Visa, MasterCard, American	$

Express, etc.)	
Store or Department Cards Balance	$
Balance owed on store purchases (lay away or other store cr	$
Cash loans owed to friends, family, or employers	$
Bills due for services (medical, dental, electrical, phone, any bill that is overdue)	$
Car Loans	$
Mortgage (the principal balance)	$
Student loans	$
Personal loans	$
Other Installment loans (e.g. student)	$
Home Equity loan or line of credit	$
Total Liabilities:	$

Net Worth Calculation	
Total Assets:	$
Total Liabilities:	$
Your Net Worth:	$

Online Options

With most of these options, you will have to print out your statement. You will not be able to store it on your computer.

➔ Kiplinger: http://www.kiplinger.com/tools/networth.html
➔ CNN Money: http://cgi.money.cnn.com/tools/networth/networth.html

Building the Bridge Questions for Reflection and Action

How does this section of information on the *asset building* help you build a **financial education bridge** for your clients? Specifically, how does it help you:

- **Choose topics**
- **Develop an approach**
- **Provide support**
- **Create an environment that helps clients succeed**