Here's how to tally your net worth

It is a time-honored rule in personal finance that you can't figure out where you're headed, or how you want to get there, until you know where you stand.

Determining your present position means calculating your net worth, in much the same way that businesses regularly total their assets and liabilities.

Most families' day-to-day financial decisions are based on their cash flow — that is, the balance in their chequing accounts and the status of their credit-card accounts.

But financial advisers say cash coming in and going out should be only a starting point in determining your financial health and planning needs.

They recommend computing your net worth regularly — once a year, at least — to help in tax planning as well as monitoring savings and investment strategies to see what progress you are making toward your longer-term goals.

The job of drawing up a balance sheet can involve a little legwork, notes United Business Service, a Boston-based advisory letter. But for most people it needn't be overly complicated.

The first step is to tally up your assets, starting with "liquid" reserves that include cash in your pocket, chequing and savings accounts, money-market accoutns and certificates of deposit maturing in one year or less.

The second category is property. "The single largest asset of many individuals is the family residence," United notes.

"Rather than relying on instinct, you should consult a broker or the real estate section of your newspaper for current market values of property in your area."

Other common types of property assets: cars, house furnishings, jewelry, the wedding china, perhaps a boat or recreational vehicle.

At this stage, you may hesitate. The house is mortgaged, you say, and the bank owns a large part of your car and boat until you pay off loans on them.

But such items go into your account at their present estimated market value. Your debts on them will be taken into account on the "liabilities" side of your personalized financial statement. Additional categories of assets to be listed included equity holdings in such things as a family business, common stocks or mutual funds; fixed assets like bonds and certificates of deposit maturing in more than one year, and retirement savings.

In adding up retirement assets, vested benefits in pension plans and other employer savings plans should be included as well as money in registered retirement savings plans.

Once the assets are tallied, all debts and other obligations should be listed in the adjacent liabilities column.

Total assets minus total liabilities equals your net worth. "Once the balance sheet is completed," United concludes,"you will have an overall picture of your financial condition."

STEPPING THROUGH LIFE

Set goals for saving

At what stage in life should a person begin to plan his or her financial future?

A 25-year-old single secretary who is debt-free and likes to travel will not be facing the same money considerations as a couple in their 40s with two teenagers ready to enter university.

Whether you're a teenager, single and unmarried, married with children at home, a single parent or a retired senior, investment strategies and financial planning must be tailored to suit your individual lifestyle, income, needs and expectations.

The following are tips to help you on the right financial track:

Ages 20 to 35:

- Open a savings account, and try to contribute regularly, even if the amount is as small as $5 or $10.
- Set some savings objectives. If you can save 10 to 20 per cent of your earnings, you will be that much closer to reaching your purchasing goals, whether they include a house, furniture, a car or a trip.
- Now is the time to establish a good credit rating. If you have a chequing account or credit card, take it easy. You should be adhering to some kind of budget. If you can't afford to pay for something, don't buy.
- Accumulate a liquid emergency fund equivalent to six months' net income.
- Consider investing in Canada Savings Bonds, term deposits, investment certificate, etc.
- Develop financial contacts, such as a stockbroker or accountant.
- With an eye to retirement planning as well as a tax plan, start contributing to an RRSP.
- To be on the safe side, make out your will, take out life insurance if you have dependents and insure yourself against unexpected catastrophes such as total disability.

Ages 35 to 50

- You are writing more cheques, paying more bills (such as a mortgage) and taking on more responsibility. Maintain your savings rate, which should include RRSPs and pension contributions, etc. Learn your financial limit by establishing a maximum credit line.
- Depending on the type of mortgage you have, consider reducing the mortgage on each anniversary date and shortening the amortization period.
- If you have young children, consider a savings plan for them. A good place to start is by banking the monthly family allowance cheque.
- Use children in tax planning, and consider income splitting.
- Invest your savings more aggressively, but avoid speculation.

Ages 50 to 65

- Your house is paid for, or nearly paid for, your insurance needs are decreasing, your children have left home and you have been building a healthy retirement fund. Maintain your savings rate and begin some serious investment planning.
- Review life insurance and adequacy of retirement income sources.
- Start debt reduction program.
- Do some estate planning. Make sure your will is up to date, legal papers are in order and all your equity is covered according to your wishes.

Age 65 and on

- Now is the time to reap the rewards of careful money planning. Your savings should be providing the income you need to live comfortably.
- Eliminate high-risk investment, update tax planning and keep all your planning simple.
- Debts should be eliminated by now and new debts avoided.
- Convert pension and RRSP funds to income.
- Review disability and general insurance, revise estate plans and life insurance if assets have changed and apply for various pensions.