

## Personal Financial Statement

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### **Definition:**

Commonly referred to as a personal balance sheet or statement of net worth. It is a complete listing of all assets owned and liabilities owed.

### **Benefits:**

You can only effectively manage what you can measure. By preparing a personal financial statement each and every year you can assess your net worth (assets minus liabilities) and determine if each is on target with your personal goals. Other key benefits to preparing a personal financial statement are: assessing the adequacy of your property and life insurance, evaluating proper investment diversification and estate planning alternatives.

### **Process:**

- Provide the client with a worksheet to list all assets and liabilities
- Review the worksheet with the client to ensure its accuracy
- Analyze data and compile recommendations with respect to each goal
- Develop action plans with the client to ensure each goal is being addressed
- Monitor actual results to predetermined goals.

### **Case Example:**

A personal financial statement was prepared for a client. The top three investments of their net worth were: 1) their investment in their closely held business, 2) the value of their 401-k plan, and 3) the value of their personal investments. The value of their investment in their business was 55% of their total net worth. Three critical issues were assessed with this investment: 1) how much insurance coverage exists to buy out their ownership interest in the event of death, 2) in the event of life how will their ownership interest be redeemed – specifically what is the succession plan?, and 3) in the event of disability how will the income stream for the family be protected? Each question led to a different action plan being created. Proper insurance amounts were acquired, disability insurance purchased, and lastly a succession plan was developed in order to assure that the value of the business was protected and the ability to turn an ill-liquid asset into a liquid asset protected.