**Net Worth Report Explanation**

**Real World Personal Finance Software**

(503) 309-1369 [support@toolsformoney.com](mailto:support@toolsformoney.com) <http://www.toolsformoney.com/>

1

Overview of the Net Worth Reports

This text is to help you understand the overall concepts, and the technical details, of the net worth reports included in your financial plan.

The data used to generate these reports came from a combination of Fact Finders, your financial statements, assumptions, and estimates. These values change daily, so there will always be a level of inaccuracy that can’t be avoided.

The *Current Net Worth Statement* report page presents a top-level summary of “where you are now.” This is a snapshot of where you were at the time of Data-collecting Discovery (AKA the Fact Finding interview phase). They are not projected end-of-year values.

Assets and liabilities are both stated using their current market values. Net worth is the result assuming that all assets were sold at their market values, no taxes were deducted, and then all liabilities were subtracted. This is an estimate of your current wealth.

Reports can also be run illustrating the effects of paying capital gains taxes on asset sales.

This data is then presented in both bar chart and pie chart form.

As the pages progress, more details are shown by projecting everything into the future.

The *Proposed* sections of your financial plan, show the estimates after our proposed recommendations have been implemented.

### Drilling Down into the Details

The next page, *Current Liabilities*, details your current liabilities. These are also current values, not projected end-of-year values.

The next three pages, *All Assets, Non-Qualified Assets, and Qualified Assets*, detail who owns what, and if they are in a non-tax-qualified account, or held in a tax-qualified retirement account, like an IRA. These are also current values, not end-of-year values.

The page, *Assets by Asset Class,* sorts assets by which investment type they are, for example - cash, bonds, or stocks. These are also current values, not end-of-year values. Here, each account is shown with a pie chart, and then the same thing is shown totaling everyone’s assets added together (again with a pie chart).

The next page, *Asset Values Before and After Capital Gains Taxes,* estimates how much of a decrease in assets will be applied after paying capital gains taxes upon their sale.

### About Asset Draw Downs

Asset draw down analysis is shown in the retirement reports.

The point here is to compare rates of depletion between Current and Proposed versions of the reports. The goal is usually to minimize it, so investment accounts will not be depleted before passing. This helps prevent *superannuitization*, which is jargon for running out of money before you die. When retirement plans are made, this is usually the main goal and purpose of the plan.

How assets payout retirement income depends both on how things are set up in the Real World, and how it’s modeled in financial planning software.

In the Real World, mutual fund and ETF accounts are depleted when shares are sold. Shares are sold when income from normal distributions (interest, dividends, and realized capital gains) are insufficient. In other words, if the income isn’t enough just from an investment’s normal income generation process, then shares must be sold to make up the difference. So how investment portfolios are structured to deal with this problem is critical.

The next issue is how financial planning software models them. The software used to generate your reports specializes in asset draw down analysis. As you can see on those reports, every parameter of interest is shown in order to help with the portfolio management process.

### Projecting the Future

These report pages illustrate how your net worth may probably change over time, when everything is combined.

Next to each asset listed, is its estimated annual growth rate in parenthesis.

These values are all estimates of what they will be at the end of each year. This is why they are different than what’s shown on the snapshot pages above. These values will include growth and shrinkage due to market fluctuations, additional monies contributed to them, withdrawals, and then paying off liabilities over time.

Each person’s assets, liabilities, and resulting net worth are projected annually. Then each person’s values are combined to display the same bottom-line information for the family as a whole.

For each adult, there are also two rows that display assets by tax-qualified and non-tax-qualified assets. This helps you to visualize how tax-qualified retirement assets are doing, compared to personal non-qualified assets.

Underneath the assets section, everyone’s liabilities are detailed. Underneath the liabilities section, liabilities are subtracted from assets to display annual net worth estimates.

### Miscellaneous

Real investment account asset growth must take inflation into account. If your average annual rate of growth is 7% and annual inflation is 3%, then your real rate of growth is only 4%.

Hopefully, all of the charts and graphs will be self-explanatory. If not, then feel free to contact us for more information.

A good measure of the benefit of financial planning and investment management is how your net worth improved over what you would have realized if you never met us, and continued doing what you were doing over the long-term.