

Your Personal Net Worth Statement

The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.



For more insights and information visit
[bmogamviewpoints.com](https://www.bmogamviewpoints.com)

As you navigate along the roadmap of your life, the amount of financial resources available to you to help you go where you want and do what you want will vary. Your success in some part will depend on how well you adapt financially to the obstacles you encounter along the way as you balance your decisions between saving, investing, borrowing, and spending.

The balance between these four decisions can be represented on your personal net worth statement. Saving and investing increases the assets available from your personal net worth, while spending decreases your assets. In the short term, borrowing both increases your assets and increases your debts, effectively offsetting each other in terms of changes to your net worth. In the long term, borrowing can be beneficial to helping you achieve your goals.

As you start building your career, a loan can help to purchase a car for you to travel to work each day to earn income. But this loan has an offsetting cost in the form of interest that is required, in addition to each loan principal repayment until the amount of the loan is repaid. The decisions that you make to balance saving, investing, borrowing and spending will have a profound impact on the financial resources available that allow you to meet your day-to-day needs and reach your longer term goals.

The choice between borrowing and spending money depends on your priorities. Is it better to finance lifestyle choices or make purchases today; or to finance purchases or investments that have the ability to increase wealth and/or income in the future. Conversely, when money is saved or invested, it is with the intent of sacrificing today to increase tomorrow's enjoyment. However you choose to use your money, after paying for your necessary expenses, you will have to regularly decide if it is better to spend extra cash flow on material items that are currently of interest, to pay down debts, or invest for your future.

The need to be more entrepreneurial with your personal finances

The choices that well-run businesses make about borrowing, spending, saving, and investing are most often made with one goal in mind: to be successful. Businesses that do this well will stay focused on this goal and will adapt when changes in the business life cycle require decisions to be made in order to sustain success. The definition of success for business owners can vary, but most often it may comprise of one or more of the following: making enough money to earn a living; increasing profitability; doing something they're passionate about; and that allows them to spend more time with family. Comparatively, if you are not a business owner, you should also employ the same entrepreneurial drive and focus to achieve similar successes with your own personal finances.

The choice between borrowing and spending money depends on (your) priorities:

- Enjoy it today, and pay for it tomorrow.
- Make a sacrifice today for tomorrow's pleasure.

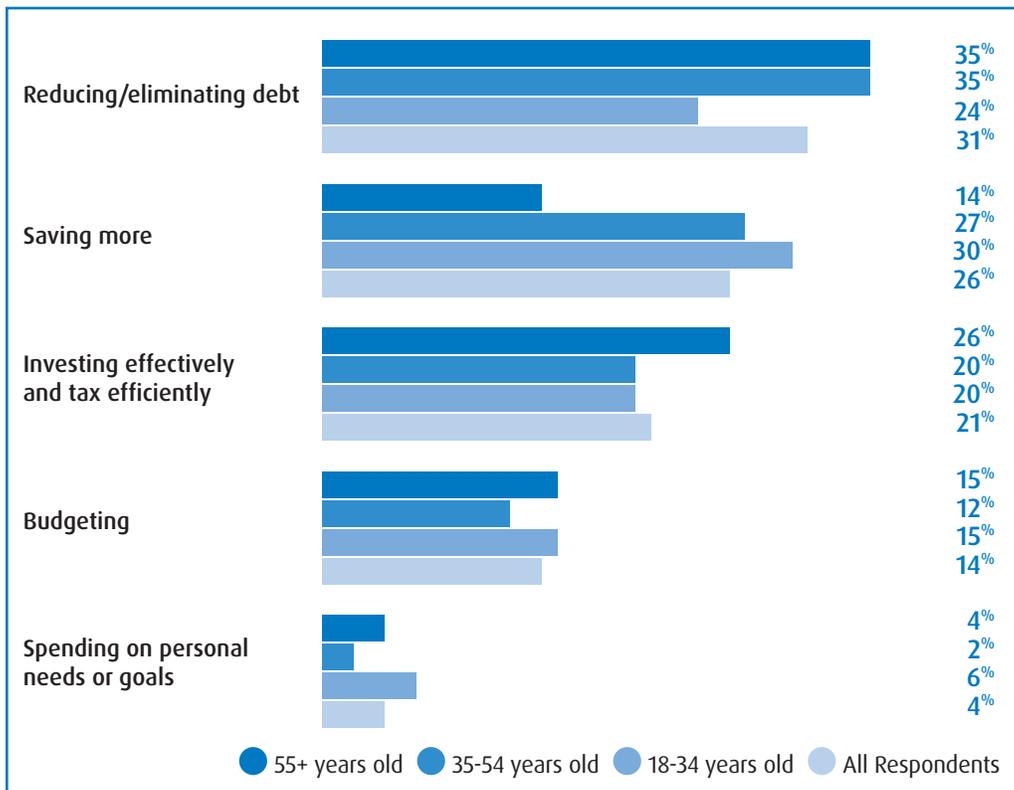
Is it better to purchase a luxury product, make a payment to reduce a line of credit, or invest with the goal of earning future dividends, interest, rental income, or capital gains? Often your current stage in life will have an impact on the financial decisions that are made about borrowing, spending, saving, and investing.

In a recent survey conducted by BMO Wealth Institute, Americans were asked about their current and planned saving, investing, borrowing and spending¹. When asked **what is the single financial priority that is most important to you?** three main answers emerged: reducing or eliminating debt (31%), saving more (26%), and investing effectively and tax efficiently (21%). Spending on personal needs or goals was well behind at only 4%. Not surprisingly, survey respondents age 18-34 favored saving more, people age 35-54 focused on reducing or eliminating debt, and those age 55 and over comparatively prioritized investing effectively and tax efficiently. These differences are shown in the graphs below. As financial needs and goals are always changing as people move from one life stage to the next, it is important to aim to be as financially flexible as a business to be most successful. This means being able to change and adapt financial strategies to meet changing needs as situations evolve.

The three main financial priorities that Americans have:

- Reducing or eliminating debt
- Saving more
- Investing effectively and tax efficiently

Most important financial priorities at this stage of life



Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., April 2016.

Parenting

Parents (with their children's influence) decide how much of the family's financial resources to allocate to the children's needs, including schooling, sports, camps, music lessons, and saving for future educational goals through Section 529 College Savings Plans or Coverdell Education Savings Plans. Often this investment in the children is directly at odds with most children's desire to spend right away on the latest technology or clothing.

When gifts are given on birthdays and holidays, parents should use this tradition as an opportunity to teach their children about the importance of balancing between spending on current wants, and the need to save, invest, and manage borrowing effectively. A similar lesson on balancing these financial components occurs when a maturing child obtains their first credit card. Spending limits combined with the need for timely repayment (hopefully from the child's own resources) provides positive lessons that can last a lifetime. It is the knowledge passed down from parents and grandparents that will help children grow and bloom into financially responsible members of society.

Building a career

After graduation, moving out and obtaining full time employment is often the first real test of the ability to balance the financial commitments of saving, investing, borrowing and spending. For millennials, who are saddled with education debt² and often pay high rent to live in attractive urban areas,³ the thought of saving and investing for the long term are lower priorities. Many millennials prefer to spend their disposable income on experiences, such as adventure holidays, instead of on something tangible or far off into the future.⁴

Yet at the same time, millennials are putting money into savings, but mostly to meet shorter term goals. Roth IRAs or regular investment accounts are very popular options to meet this type of savings goal. One study indicated that while savings was a top priority once essential living expenses were covered, contributions to fund retirement plans were only a focus for one in four of those that was putting extra income into savings⁵

At this early life stage, putting in place a plan to achieve future goals such as saving for a down payment to buy a home, or reducing outstanding student debt are most important. By establishing a budget that focuses on saving and reducing borrowed amounts, as opposed to spending on current wants, it may be possible to achieve these goals more quickly.

Also, by having a plan in place to achieve these important longer-term goals, there is a greater opportunity to have increased future wealth, especially if the plan incorporates a regular savings component that invests a little from each pay period.

Saving for holidays is still important as there has to be rewards for all of the hard work put in. But this should be combined with saving, investing, and plans to reduce existing student debt to make the most of your financial net worth statement and your opportunities.

Working towards **having it all**

The desire to **have it all** can take its toll on health and happiness, especially upon reaching an age between the late 20s and early 30s. It is very difficult to find the time and resources to simultaneously build a successful career, nourish relationships, get married, have children and create the picture perfect home.⁶ Often competing financial pressures mean making difficult choices: focusing on some things now, with the goal of making other things a priority after higher ranking goals are accomplished.

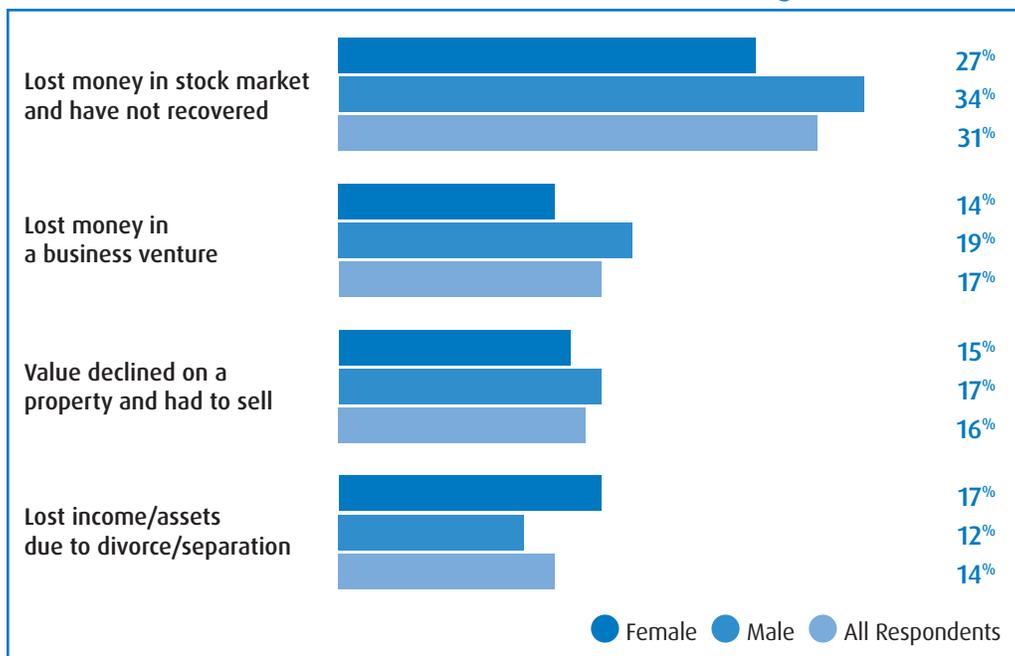
From a financial point of view, this means looking at the financial resources available in the form of income and investments and then prioritizing these resources to help achieve personal goals. A budget can help to ensure savings and investing happen with stated goals in mind.

But life events can make it more difficult to reach personal financial goals. In the survey, people were asked about events that had made it difficult to save or invest towards their financial goals. The previous loss of money in the stock market (31%), a business venture (17%) and the sale of a property that had declined in value (16%) were most frequently cited. Males were more likely to have lost money in the stock market or a business venture than females.

Often **competing financial pressures** mean making difficult choices.

A **budget can help to ensure savings and investing happen** with stated goals in mind.

Life events that made it difficult to save or invest for financial goals

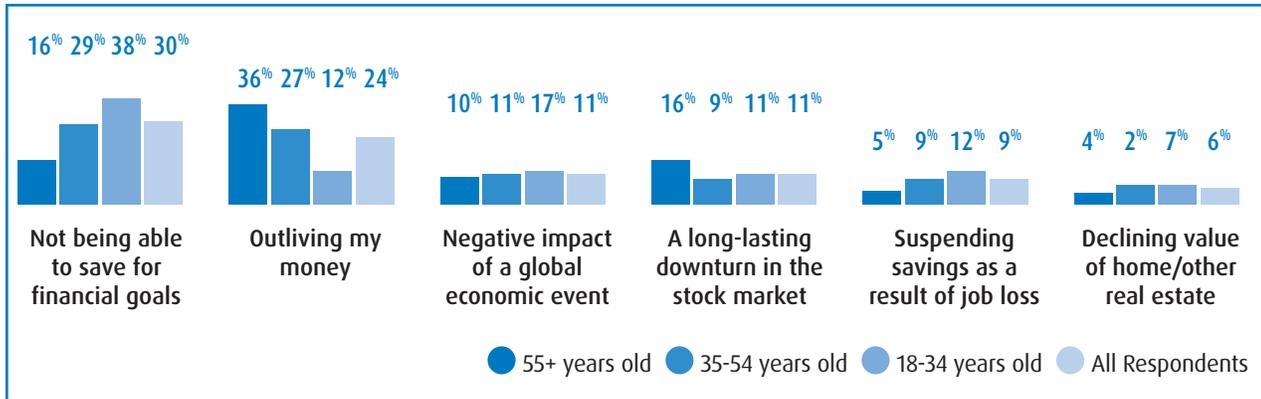


Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., April 2016.

These losses that have occurred in the past weigh on people’s minds and may make them more tentative and fearful as they prepare for their financial futures. The survey found that fears about not being able to save or invest towards financial goals were frequent (30% of those surveyed), and a fear of outliving any savings that could be accumulated was also high on the list (24%). Others feared events over which they had little control, including a negative global economic event (11%), a long-term downturn in the stock market (11%), not being able to save due to job loss (9%), and declining home values (6%).

The **main saving or investing concern** for Americans is not being able to save for financial goals.

Main saving/investing concern when thinking about preparing for the future



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., April 2016.

Expanding the personal net worth statement

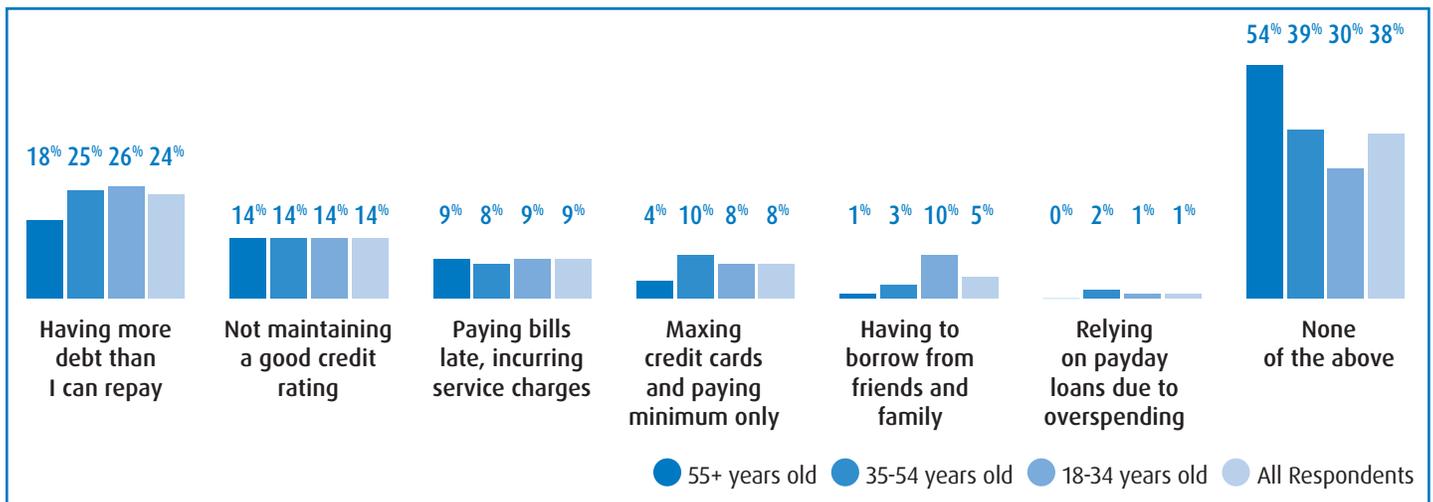
Millennials, born between 1980 and 2000,⁷ are at the stage in life where a desire to have it all will result in a rapidly expanding net worth statement. Both assets in the form of savings, investments and a possible purchase of real estate will grow, as will liabilities because of remaining education debt and the taking on of new debt to finance a home purchase or to fund a new business. Over time the growth of the net worth statement when debt is used wisely, spending is managed effectively, and saving and investing are implemented appropriately, can all contribute to increased net worth (equity).

With the ever increasing cost of a home in the U.S., especially in specific large urban centers,⁸ taking on a mortgage and other debt is often required to get into home ownership. While parents may generously help with the down payment, there will still be much debt on a millennial's personal net worth statement.⁹

The survey found that financial concerns do impact how many people prepare for the future, especially as it relates to having debt. Concerns included having more debt than can be repaid (24%), not maintaining a good credit rating (14%), and paying bills late and incurring service charges (9%). Interestingly, 38% of the people surveyed did not have concerns when borrowing money. This figure rose to 54% for people age 55 and over.

The **main borrowing concern** for Americans is having more debt than they can repay.

Main borrowing concern when thinking about preparing for the future



Source: BMO Wealth Institute survey by Validatelt Technologies Inc., April 2016.

Financial steps people can take to achieve their financial goals

With marriage, a growing family and home ownership come the added responsibilities that did not exist at earlier life stages. For example, the average loan size for home purchases is now over \$307,000.¹⁰ Lines of credit and HELOCs also add to the borrowing side of the net worth statement. For many, home ownership is an investment in their family and hopefully in the future growth in value of their home asset.

Home insurance naturally comes to mind to protect the family should a disaster cause damage or destruction to the home. In addition, families should strongly consider also protecting their income sources should something happen that would impact the ability to bring in income to pay down debts and meet other financial responsibilities. Life insurance as well as disability insurance can help to provide necessary funds should something untoward happen to one of the family's primary members.

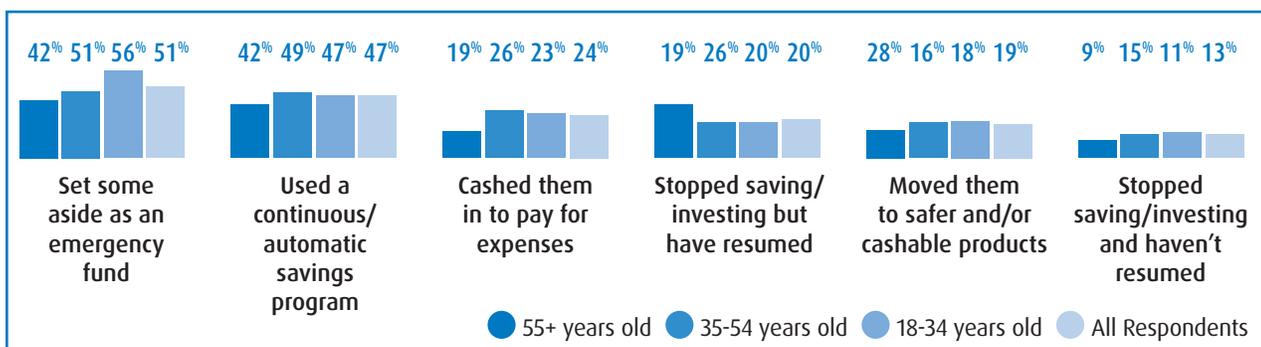
Setting up an emergency fund can also help in situations where either large costs have to be paid, or income is restricted. Emergency funds should be easily accessible and liquid, and be large enough to cover between three and six months' worth of expenses. Emergency funds can be established in Roth IRAs or investment accounts, for example and grown through regular contributions using an automated savings program.

When children are part of the picture, establishing funding for their future educational goals through Section 529 (Qualified Tuition) Plans is important. This goal is also supported by the federal government as earnings within the plan are not subject to taxes. Many state governments also exempt earnings from taxation as long as withdrawals are used for eligible college expenses.¹¹

Overall, many of the respondents to the survey noted that they have made positive steps towards growing their personal net worth statements and securing their financial futures. More than half (51%) had set aside funds towards an emergency fund, and 47% use a continuous or automated savings program. Some have also had to either reduce savings to pay for expenses (24%) or to have temporarily put their savings and investing plans on hold (a combined 33%) in the past. These details are presented in the chart below.

More than half have set aside some of their savings as an emergency fund.

Actions taken with savings/investments



Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., April 2016.

Divorce can be a costly setback

One of the most difficult and financially costly situations that can occur for a family is divorce. Not only does divorce shrink the size of the family net worth statement through division of assets and liabilities, but professional fees to go through the process can also add up quickly. This is described in more detail in a report called [Life events that may derail a financial plan](#) that was issued by the BMO Wealth Institute in May 2013.¹² One of the findings in that report was that 75% of the people surveyed felt that they would face a major or catastrophic financial hit as a result of a divorce or separation. This is especially important as between 40 to 50 percent of marriages in the U.S. are expected to end up in divorce.¹³

If you find yourself going through a divorce, it is very important to reevaluate your financial circumstances and reestablish control. This is especially true for the spouse that may not have been involved in the family’s financial affairs before the divorce occurred. Professionals are available that can help to get you organized and back on track financially through this emotionally difficult period. A financial professional can help you put plans in place that account for the changes, and help you put in place strategies right away. These financial strategies can include plans to reduce, consolidate or eliminate specific debts, or savings strategies to help you focus on new personal goals.

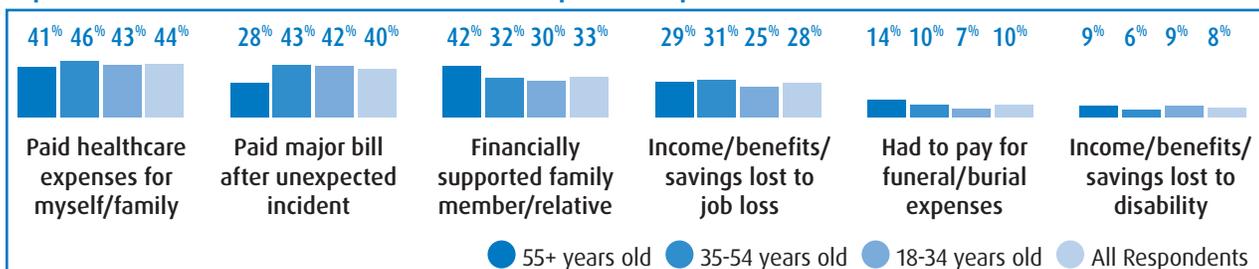
Retirement awaits

As you approach retirement, the shape of your personal net worth statement typically changes to be more heavily weighted towards assets, with less borrowing offsetting your net worth. A big reason for this is the combined effect of increasing home values over the last few years¹⁴ and the repayment of debts, especially debt related to the purchase of a home. About 32% of Americans aged 55 to 59 own their homes outright with no mortgage debt. This increases to about 40% for Americans age 60 to 64.¹⁵

Sometimes life events result in unexpected expenditures. The survey found that most respondents had paid out of pocket healthcare costs for themselves or family members (44%), paid a major bill after an unexpected incident (40%), provided financial support for a family member (33%), and had lost income, benefits or savings as a result of job loss (28%). Interestingly, the group that most often experienced a major bill after an unexpected incident (43%) was between the ages of 35-54. For those ages 18-34, this unexpected cost was only reported by 28% of those surveyed.

40%
have been impacted financially with a major unexpected incident.

Experienced life events that resulted in unexpected expenditures

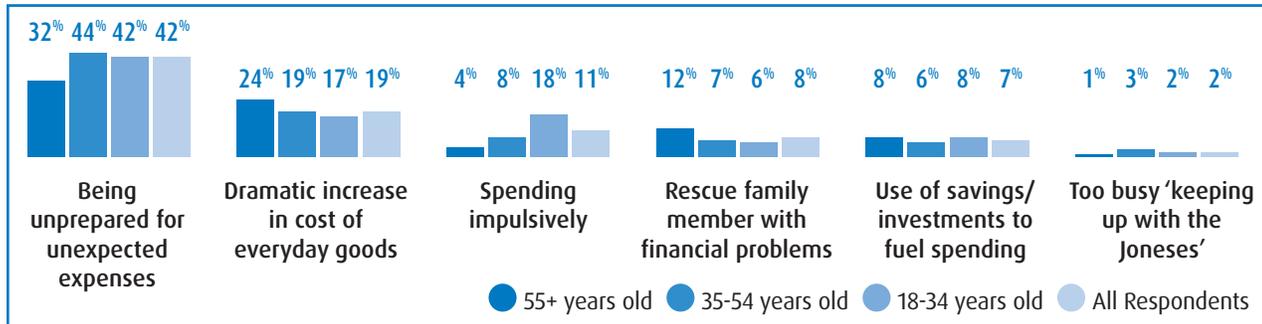


Source: BMO Wealth Institute survey by Validatelt Technologies Inc., April 2016.

While moving towards retirement, many of the people surveyed still had concerns about their spending habits. Being unprepared for unexpected expenses was top of mind for 42% of those surveyed, and a dramatic increase in the cost of everyday goods worried 19%. Spending impulsively was less of a concern as only 4% of those aged 55 and up raised this issue. But four and a half times as many (18%) millennials (survey respondents age 18-34) worried about impulse spending.

The main spending concern for Americans is **being unprepared for unexpected expenses**.

Main spending concern when thinking about preparing for the future



Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., April 2016.

Being at a stage in life where there is an intention to have less debt on the net worth statement provides an opportunity to refocus the use of income from reducing debt to saving and investing for the future. When combined with the likelihood that these years also provide the potential for earning higher income,¹⁶ this is an opportunity to work with your financial professional to build a financial plan that will put steps in place to meet your longer term financial goals.

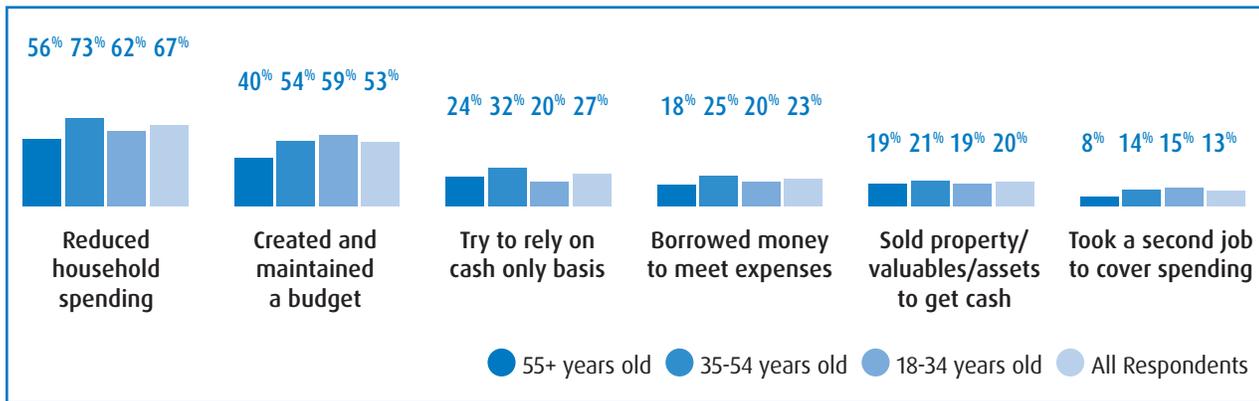
As retirement approaches

People approaching retirement may be earning more income at this stage in life than is needed to pay ongoing required expenses. The choice of how to allocate this excess income between saving, investing, borrowing and spending is important because the ability to earn income from employment generally stops or is significantly reduced at the point of retirement. It is at this point where people may have to look at reassessing their spending, borrowing, saving and investing prior to retirement.

When asked about what they have done with their spending, survey respondents most frequently said that they have reduced household spending (67%) and created and maintained a household budget (53%). People age 55 and older were much less likely to create and maintain a budget (40%) as compared to the younger generation (59%).

To take charge of spending, **2 in 3 Americans have reduced** their household spending.

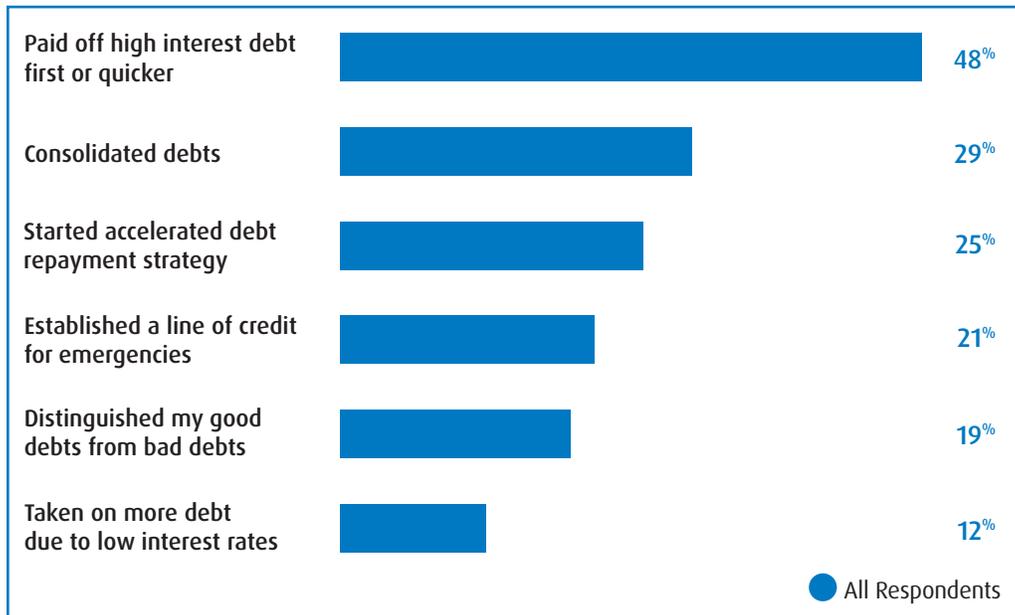
Actions taken with spending



Source: BMO Wealth Institute survey by Validatelt Technologies Inc., April 2016.

Many good strategies are also employed by those surveyed when it comes to how they treat their borrowings. Prioritizing the paying of high interest debt is done by 48% of those surveyed, consolidating debts to reduce interest costs by 29%, accelerating debt repayment by 25%, putting in place a line of credit for emergencies by 21%, and understanding the difference between good debt and bad debt by 19%. All of these good practices help to lower the interest costs associated with borrowing and provide additional benefits to the personal net worth statement through reduced debt costs.

Actions taken with debt



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., April 2016.

Additionally, there are a number of strategies that can help achieve greater tax efficiency when investing, including: taking advantage of IRAs, 401(k) Plans, and types of retirement plans¹⁷ to earn tax deferred income, and maximizing allowable contributions to Roth IRA accounts to earn tax free income.

Earning tax efficient income, such as dividends¹⁸ and capital gains also helps to reduce the taxation on investment income. It is most important that tax efficient strategies be part of an overall financial plan to help you reach your financial goals.

To take charge of debt obligations, nearly half have prioritized paying off high interest debt first or quicker.

In retirement the balance sheet starts to shrink

One of the goals of retirement is to have a consistent cash flow or income stream that will help meet ongoing financial requirements. Reducing expenses in retirement is also important to help make accumulated savings last for your lifetime. This is also a time to consider scaling back on financial support paid to younger family members by the Bank of Mom and Dad,¹⁹ especially if funds are limited and the financial plan indicates that large size distributions may result in running out of retirement assets.

Early in retirement spending on travel is often a priority, whether for personal enrichment or to visit family members who have moved away. The amount allocated varies considerably depending on where and how often you plan to travel. One study noted certain globetrotters may spend upwards of 25% of their post retirement annual budget on travel.²⁰

Healthcare expenditures are the cost most likely to rise in retirement. A variety of studies indicate that various healthcare costs will add up to well over \$250,000 on average.²¹

As assets are typically converted into an income stream to fund retirement, the size of the net worth statement starts to shrink over time. Hence the decisions that many retirees make – paying down debts (especially mortgages) is often a priority given reduced cash flows. Also, asset amounts are reduced as these assets are used to meet current expenditures. Where sufficient assets are still available, planned gifts are often made to family members and loved ones to reduce the future size of the personal net worth statement, thereby reducing taxes, estate taxes at death, and the complexity of the future estate.

Conclusion

While no two individuals experience the same sequence of life events, it is important to plan for likely events in life and be ready to adjust your financial plan to changing circumstances.

When surveyed about the type of financial advice that they would seek from a financial professional now or in the future, the results showed a variety of ways that a financial professional could assist them in making sound decisions for their financial future.

Most frequently, advice would be sought related to investment management (52%), cash flow management and budgeting (27%), debt management (26%), estate planning (24%), health and long term care needs assessment (21%), and insurance needs assessment (17%). Cash flow management and debt management are higher priorities for survey respondents age 18-34 (31% and 29% respectively) as compared to people age 55 and older (only at 19% and 15% respectively). Furthermore, the need for estate planning becomes more of a high priority for those aged 55 and older (32%) than those between the ages of 18-34 (18%).

Each of these advice areas highlights how important it is to manage all aspects of your personal net worth statement, including balancing saving, investing, borrowing and spending activities over your lifetime. By working together with your investment professional it will be possible to better monitor your personal net worth statement, make good financial decisions, and adapt when necessary to help you better achieve your financial goals.

Footnotes

- ¹ BMO Life Events Survey USA, conducted by Validatelt for the BMO Wealth Institute between April 14-19, 2016. The online sample size was 1,018 Americans aged 18 and over across United States and key states of Arizona, Florida, Illinois, Indiana, and Wisconsin. Overall probability results for a sample of this size would be accurate to within +/- 3.07% 19 times out of 20.
- ² Student Debt Viewed as Major Problem; Financial Considerations Important Factor for Most Millennials When Considering Whether to Pursue College. Harvard IP, The Kennedy School. Accessed May 28, 2016. <http://iop.harvard.edu>
- ³ Rising Rents Are Finally Forcing Millennials to Buy Houses. Gopal, P. and Gittelsohn, J. Bloomberg. March 25, 2015. www.bloomberg.com
- ⁴ Why millennials go on holiday instead of saving for a pension. Williams, A., Financial Times. February 12, 2016. www.ft.com
- ⁵ Once you have covered your essential living expenses, which of the following statements best describe what you do with you spare cash? Statista. 2016. www.statista.com
- ⁶ The Myth of Having It All. Hassler, C. Huffpost Healthy Living Blog. November 17, 2011. www.huffingtonpost.com
- ⁷ Getting Ahead: The Financial Challenges for Generation X and Y. BMO Wealth Institute. February 2014. www.bmo.com
- ⁸ S&P / Case-Sheller 20-City Composite Home Price Index. S&P Dow Jones Indices. Accessed May 28, 2016. <http://ca.spindices.com>
- ⁹ The Bank of Mom and Dad – A Source of Comfort for Everyone. BMO Wealth Institute. December 2015. www.bmo.com
- ¹⁰ Purchase Applications Increase and Refis Hold Steady in Latest MBA Weekly Survey. Mortgage Bankers Association. May 25, 2016. www.mba.org
- ¹¹ An Introduction to 529 Plans. U.S. Securities and Exchange Commission. Accessed May 28, 2016. www.sec.gov
- ¹² Life Events that May Derail a Financial Plan. BMO Wealth Institute. May 2013. www.bmo.com
- ¹³ Marriage & Divorce. American Psychological Association. Accessed May 28, 2016. www.apa.org
- ¹⁴ Home Prices in 20 U.S. Cities Increase at Steady Pace. Stilwell, V. Bloomberg. February 23, 2016. www.bloomberg.com
- ¹⁵ How Many Homeowners Have Paid Off Their Mortgages? Chalabi, M. FiveThirtyEight. <http://fivethirtyeight.com>
- ¹⁶ Earnings Growth Over a Lifetime: Not What It Used To Be. Kong, Y.C., Ravikumar, B., Federal Reserve Bank of St. Louis. April 2012. www.stlouisfed.org
- ¹⁷ Types of Retirement Plans. IRS Website. Accessed May 28, 2016. www.irs.gov
- ¹⁸ Navigating the Dividend Storm. Ruffenach, G. The Wall Street Journal. January 10, 2013. www.wsj.com
- ¹⁹ The Bank of Mom and Dad – A Source of Comfort for Everyone. BMO Wealth Institute. December 2015. www.bmo.com
- ²⁰ Beware the Retirement Splurge. Time.com/money website. Accessed May 28, 2016. www.time.com
- ²¹ Retiree healthcare costs may be more than you think. Anderson, T., CNBC. March 27, 2015. www.cnn.com



The foregoing summary is not based upon the factual situation of any specific taxpayer, is not intended to be tax advice to any taxpayer and is not intended to be relied upon.

BMO Global Asset Management does not offer tax advice. Contact your tax advisor.

This information cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on the taxpayer. This information is being used to support the promotion or marketing of the planning strategies discussed herein. BMO Financial Group and its affiliates do not provide legal or tax advice to clients. You should review your particular circumstances with your independent legal and tax advisors.

Estate planning requires legal assistance which BMO Financial Group and its affiliates do not provide. You should discuss your particular estate-planning situation with a qualified attorney.

BMO Wealth Institute, a unit of BMO Financial Group, provides this commentary to clients for informational purposes only. The comments included in this document are general in nature and should not be construed as legal, tax or financial advice to any party. Particular investments or financial plans should be evaluated relative to each individual, and professional advice should be obtained with respect to any circumstance.

BMO Global Asset Management is the brand name for various affiliated entities of BMO Financial Group that provide investment management and trust and custody services. Certain of the products and services offered under the brand name BMO Global Asset Management are designed specifically for various categories of investors in a number of different countries and regions and may not be available to all investors. Those products and services are only offered to such investors in those countries and regions in accordance with applicable laws and regulations. BMO Financial Group is a service mark of Bank of Montreal (BMO).

BMO Asset Management Corp. is the investment advisor to the BMO Funds. **BMO Investment Distributors, LLC is the distributor.** Member FINRA/SIPC.

BMO Asset Management Corp., BMO Investment Distributors, LLC, BMO Private Bank, BMO Harris Bank N.A. and BMO Harris Financial Advisors, Inc. are affiliated companies. BMO Private Bank is a brand name used in the United States by BMO Harris Bank N.A. BMO Harris Financial Advisors, Inc. is a member FINRA/SIPC, an SEC registered investment adviser and offers investments, advisory services and insurance products. Not all products and services are available in every state and/or location.

Securities, investment advisory and insurance products are: **NOT FDIC INSURED — NOT BANK GUARANTEED — MAY LOSE VALUE.**