

A Financial Practitioner Tool Kit: Assessment, Prescriptions, and Progress Checkup

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Thirty years ago, the late New York City mayor Ed Koch was known for his trademark query “How am I doing?” as he asked people for feedback on his progress at the helm of America’s largest city. Some people feel the same way about their finances and are motivated to improve their money management practices with personalized assessments of their strengths and weaknesses and/or comparisons to evidence-based frames of reference or to other people in similar circumstances as themselves (Closing the Gap, 2006; Motivating Americans, 2004; O’Neill & Ensle, 2013). This article describes a “tool kit” of 25 resources, techniques, and metrics that financial practitioners can use to assess clients’ individual/household financial wellness or teach others so they can do their own self-assessments. It covers a wide variety of personal finance topics that are linked together because they are all associated with some type of financial progress assessment or measurement of financial health. While many of these topics, individually, may not be new to experienced financial practitioners, the way that they are packaged together and integrated holistically will be. Web links included in this article are current as of May 2015. The article concludes with action steps to help readers put the content into practice and implications for financial practitioners.

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INTRODUCTION

Financial self-assessment topics discussed in this article are organized into the following six categories:

- ◆ **Financial Statement Check-Up-** Incremental changes in net worth, the “wealth test,” cash flow statement, irregular expense review, financial ratio analysis, spending plan analysis
- ◆ **Financial Planning Check-Up-** Progress toward financial goals, credit check-up, housing check-up, income tax check-up, life insurance needs analysis, general insurance check-up

- ◆ **Investment Check-Up-** Investment performance review, investment risk tolerance analysis, investment asset allocation check-up.
- ◆ **Later Life Financial Planning Check-Up-** Retirement planning check-up, Social Security and pension check-up, estate planning check-up
- ◆ **Personal Characteristics Check-Up-** Human capital check-up, career check-up, lifestyle check-up, health finance check-up
- ◆ **Assessment and Comparison Tools-** Online financial self-assessment tool scores, comparison with other Americans by median income, and net worth, comparison by U.S. income and net worth percentiles

FINANCIAL STATEMENT CHECK-UP

1. **Incremental Changes in Net Worth-** Net worth is calculated by subtracting what people owe (debts) from what they own (assets). Ideally, the result should be a positive number that grows steadily over time through a combination of saving to accumulate assets and debt repayment to lower outstanding balances (O'Neill, 2002). Net worth worksheets such as <http://njaes.rutgers.edu/money/pdfs/networthcalcworksheet.pdf> include several categories of assets (cash, real estate, investments, personal property) and debts (e.g., current or short-term debts, mortgages, and other loans). With a net worth statement, it is easy to determine adequacy of emergency savings, amount of home equity, portfolio diversification, total amount of debt owed, and gaps or weaknesses in financial planning (e.g., lack of an IRA for retirement savings or a house or car that is “underwater” with a lower current value than its current debt repayment balance).

Net worth is especially helpful when viewed sequentially as part of an annual financial review. It is a useful barometer of financial progress. It is important to note, however, that a net worth decline may not always be a sign of weakness. Sometimes, external factors lower the value of financial assets such as housing and investments, as was the case during the Great Recession and its aftermath. Someone might have been saving regularly but still have experienced a decline in asset values and net worth. In this situation, the most important sign of net worth progress is whether outstanding debt balances have decreased (Bernard, 2010).

2. **The “Wealth Test”-** Once people have calculated their net worth, they can take the “Wealth Test” described in the book *The Millionaire Next Door* (Stanley & Danko, 1996). This formula to assess one's financial progress is based on two key factors: age and pre-tax (gross) income from all sources except inheritances. Simply multiply these two figures together and divide by 10. The result indicates what a person's

minimum net worth should be. The higher the number, relative to this benchmark, the better. As an example, if a 35 year old earns a \$40,000 annual income, the adequate net worth figure for that age and income combination is \$140,000 ($35 \times \$40,000 = \$1,400,000$ divided by 10). The worksheet below, adapted from <http://www.bauer.uh.edu/drude/Net.Worth.Worksheet.pdf>, can be used to both do a “Wealth Test” calculation and assess a person’s net worth in relation to the recommended minimum adequacy value.

Net worth (assets minus debts) 1. _____

Annual household income (all sources excluding inheritances) 2. _____

Age (if both spouses work, average your ages) 3. _____

Multiply income by age (Line 1 x Line 3) 4. _____

Divide Line 4 by the number 10 to get the adequate net worth amount. 5. _____

Divide net worth (Line 1) by Line 5 (expected net worth) to get score 6. _____

Interpretation of *Wealth Test* Score

2.0 or Higher: In the top 25% of wealth builders and one of Stanley and Danko’s PAWs (prodigious accumulators of wealth)

1 to 1.99: Above-average wealth builder for age and income level

0.51 to 0.99: Below-average wealth builder for age and income level

0.50 or Lower: One of Stanley and Danko’s UAWs (under accumulators of wealth)

3. **Cash Flow Statement-** Cash flow, the relationship between household income and expenses (Kapoor, Dlabay, & Hughes, 2012), is another useful financial benchmark. Ideally, an individual or family should have positive cash flow; i.e., income greater than expenses with savings to build up an emergency reserve and/or fund financial goals considered as a fixed expense. There are only three sustainable ways to improve cash flow: increase income, decrease expenses, or a combination of the two. Income can be increased by adjusting tax withholding on Form W-4 (this will result in a smaller refund), working overtime, adding a second job or freelance work, accessing public benefits, selling assets, upgrading job skills, and charging adult

- children living at home “rent” for room and board room. A review of household expense categories (housing, food, transportation, clothing, utilities, and other) can also identify strategies to improve cash flow. Examples include refinancing a mortgage, carpooling, and shopping for clothing at thrift shops.
4. **Irregular Expense Review-** A financial check-up should identify the projected annual cost of irregular (a.k.a., occasional or periodic) expenses so that money can be set aside on a monthly basis to pay these bills when they come due. Examples include school tuition, holiday and birthday gifts, quarterly property tax payments, water and sewer bills, vacations, club memberships, insurance premiums, and estimated taxes sent to the IRS. To determine the amount of the monthly set-aside, total each expense and divide by 12. The result is the amount to set aside temporarily in a savings account to cover irregular expenses. For example, if various irregular expenses, combined, cost \$15,000 annually, the monthly set-aside would be \$1,250. A worksheet to make this calculation can be found at <http://njaes.rutgers.edu/money/pdfs/fs421worksheet.pdf>.
 5. **Financial Ratio Analysis-**Financial ratios are derived by combining information taken from net worth and/or cash flow statements (e.g., liquid assets and monthly expenses) into instructive metrics. They can be used by individuals to make an assessment of their current financial status and to measure changes and progress over time (Kapoor, Dlabay, & Hughes, 2012). In addition to their use for personal self-assessments, ratios are used by lenders to assess the debt repayment capacity of potential borrowers as part of the loan application process. Following are five commonly-used ratios in personal finance:
 - ◆ **Liquidity Ratio-** Liquid assets (from net worth statement) divided by monthly expenses (from cash flow statement). *Example:* $\$10,000 \div \$3,000 = 3.33$. The result indicates how many months of living expenses can be paid from readily available cash in the event of an emergency. In the example, the ratio is a little over the minimum recommended emergency fund of three months. The higher the ratio multiple (e.g., 10 vs. 3), the greater a household’s ability to handle a financial crisis with liquid reserves.
 - ◆ **Savings Ratio-** The amount saved each month divided by gross monthly income (both from a cash flow statement). *Example:* $\$450 \div \$5,000 = 0.09$ or 9%. The result indicates the percentage of household income being saved. In the example, the ratio is under the frequently cited guideline of saving at least 10% of earnings. The higher the ratio multiple (e.g., 20 vs. 9), the greater a household’s saving prowess.
 - ◆ **Debt Ratio-** Total debt divided by net worth (both from net worth statement). *Example:* $\$250,000 \div \$400,000 = 0.625$ or 62.5%. The result compares the

amount of debt to net worth. Ideally, the ratio should be a low multiple (e.g., 10% vs. 62.5%) less than 1. Students just out of college may have a ratio greater than 1 as balances on student loans exceed their net worth.

- ◆ **Consumer Debt Ratio-** Amount of monthly debt payments, excluding a mortgage, divided by monthly take-home pay (both from a cash flow statement). *Example:* $\$400 \div \$4,200 = 0.095$ or 9.5%. The result indicates how much of a household's take-home pay is spent on consumer debt payments. In the example, the 9.5% ratio is below the "danger zone" ratio of 20% (Kapoor, Dlabay, & Hughes, 2012).
 - ◆ **Mortgage Payment Ratio-** Monthly mortgage payment (principal, interest, taxes, and insurance) divided by monthly gross income (both from a cash flow statement). *Example:* $\$1,500 \div \$6,000 = 0.25$ or 25%. The result indicates the percentage of gross income spent on housing. In the example, the ratio is just under the 28% ratio that is often used as an affordability benchmark by mortgage lenders.
6. **Spending Plan Analysis-** Unlike a cash flow statement that analyzes past income and expenses, a spending plan (a.k.a., budget) is a forward-looking projection of planned income, spending, and savings. An annual financial review should adjust for changes in all three of these components. Examples include an anticipated raise, an increase in the cost of utilities and/or property taxes, and a higher 401(k) plan contribution. To download a spending plan worksheet that can be completed with a pencil and a hand-held calculator, visit <http://njaes.rutgers.edu/money/pdfs/fs421worksheet.pdf>. To download a spending plan spreadsheet that uses pre-programmed Microsoft Excel® software to make income and expense calculations with a computer, visit <http://njaes.rutgers.edu/money/templates/Spending-Plan-Template.xls>.

Financial Planning Check-Up

7. **Progress Toward Financial Goals-** Financial practitioners are very familiar with the term SMART goals where financial objectives are Specific, Measurable, Attainable, Realistic, and have a Timeline (Tucker, 2009). In other words, SMART goals have a specific deadline date and dollar cost. An example is: "I will save \$12,000 toward the cost of a new car in four years." Once a SMART goal is defined, the required savings amount can be calculated by dividing the savings goal by the number of months to save using a worksheet such as <http://njaes.rutgers.edu/money/pdfs/goalsettingworksheet.pdf>. For example, \$12,000 divided by 48 months = \$250 of savings per month. An annual financial check-up can determine if goal attainment is on track. For example, by the end of year two,

- \$6,000 should have been saved in the above scenario. If required savings has been less than adequate, alternative scenarios should be explored such as scaling back the savings goal (e.g. \$10,000 instead of \$12,000), extending the saving timeline (e.g., five years instead of four), or saving more during the remaining 24 months to close the gap.
8. **Credit Check-Up-** Requesting, and then reviewing, a free annual credit report from Equifax, Experian, and TransUnion is a key part of an annual credit check-up. Every four months, on a rotating basis, a report from one of these “big three” credit bureaus should be obtained via www.annualcreditreport.com. This way, the most current information can be reviewed for errors and evidence of identity theft instead of waiting a full year for another free report. Other components of an annual credit check up include shopping around for low interest rate loans and credit cards, negotiating lower interest rates from existing creditors (e.g., credit card issuers), reviewing eligibility for rewards (e.g., cash-back payments or frequent flyer miles) from credit card reward programs, and preparing a “credit card inventory” that lists the issuer of one’s credit cards, their account numbers, and contact information (Customer Service address and toll free number) for card issuers. A form to do this can be found at <http://njaes.rutgers.edu/money/pdfs/session-i.pdf> (see page 30).
 9. **Housing Check-Up-** For renters, a housing check-up includes finding out whether a future rent increase is forthcoming and, if so, how much and when? It might also include comparing the costs and features of alternative rental options to find a better deal and purchasing a renter’s insurance policy, if needed. For homeowners, a housing check-up might include a cost-benefit analysis for refinancing a mortgage or the selection of a different type of mortgage (e.g., a fixed-rate mortgage instead of an adjustable rate mortgage or ARM). It should also include a review of home maintenance expenses during the past year and establishment of a “sinking fund” for expenses that invariably arise. A commonly cited guideline for planning purposes is to assume that maintenance and repair costs will equal about 1% of a property’s value every year (Brown, n.d.). For example, \$2,400 on a \$240,000 home or \$200 per month. Experts caution that this amount is just a minimum and may not cover large expenses like a new roof. Nevertheless, it is a good start and something that many homeowners fail to proactively plan for.
 10. **Income Tax Check-Up-** A good place to begin an income tax check-up is determining an individual or family’s marginal tax rate based on taxable income and filing status (single, married filing jointly, etc.). A list of marginal tax brackets for the last decade can be found at <http://njaes.rutgers.edu/money/taxinfo/>. Knowledge of one’s tax rate can inform financial decisions such as charitable gifting and investing. Assuming someone in the 25% marginal tax bracket can itemize tax deductions, a

\$1,000 donation will result in \$250 in tax savings ($\$1,000 \times .25$) or an out-of-pocket cost of \$750. The taxable equivalent yield of a tax-exempt investment is also calculated with marginal tax rates and is determined by dividing the tax-exempt yield by 1 minus an investor's tax bracket. *Example:* 3% divided by 1 minus .25 = $3 \div .75 = 4\%$.

Another key part of an income tax check-up is determining if tax withholding (or estimated payments) is accurate and making adjustments, if necessary. Income tax withholding can be explained as follows:

- ◆ Fewer withholding allowances = More withholding = Smaller paycheck = Bigger tax refund
- ◆ More withholding allowances = Less withholding = Larger paycheck = Smaller refund or taxes owed

In 2015, one withholding allowance on a W-4 Form = \$4,000. This is equivalent to about \$77 per week in a worker's paycheck ($\$4,000 \div 52 = 77$).

Many people over-withhold tax payments to receive a large tax refund. The government doesn't pay interest on refunded amounts but current interest rates are low so taxpayers are not losing much. Some people view tax refunds as forced savings and like having a large lump sum. Unfortunately, the increasing prevalence of tax identity theft should force people to rethink this strategy. It now seems prudent not to over-withhold tax payments to receive a large refund due to the possibility of becoming a theft victim. When taxpayers' identities are stolen, they must wait months for their cases to be resolved and to collect their tax refund (Zamost, 2012). If, however, they change their W-4 form and receive more money throughout the year in their paycheck, there will be little or no money held up the following year if they are a tax fraud victim.

People nervous about being "caught short" and owing taxes can set aside some money "just in case." They'll have cash ready, if needed, to pay a tax bill and extra savings if not. Learning the "safe harbor" tax rules is also important to avoid running afoul of tax laws and having to pay under-withholding penalties. For example, as long as taxpayers pay the IRS this year as much as they paid last year (110% of last year's tax bill if income exceeds \$150,000 per year), a safe harbor rule ensures that the IRS can't charge penalties or interest. Ideally, though, an accurate W-4 form should place withholding somewhere in the "sweet spot" between receiving a small refund and paying a small tax bill.

11. **Life Insurance Needs Analysis-** Most people buy life insurance to protect people who depend upon them from financial losses caused by their death (Kapoor, Dlabay, & Hughes, 2012). Thus, as lifestyles, income, and net worth change, life insurance

coverage should be reviewed and, if necessary, revised. A key consideration is the amount of coverage (i.e., policy face value) and whether it is adequate for family needs. The best way to determine this is with a personalized estimate of life insurance needs that considers the annual income needed by survivors, the number of years that income is needed, anticipated expenses (e.g., funeral, mortgage, and college expenses for children), and anticipated resources such as existing assets, government benefits, and a survivor's income. With this information in hand, worksheets such as <https://www.hr.cornell.edu/benefits/insurance/worksheet.pdf> and online calculators such as <http://www.lifehappens.org/insurance-overview/life-insurance/calculate-your-needs/>, <http://www.bankrate.com/calculators/insurance/life-insurance-calculator.aspx>, and <http://money.msn.com/life-insurance/life-insurance-quotes.aspx> can be used to determine the amount of coverage needed. From there, comparisons can be made among types of policies (cash value and term). Beneficiary designations on life insurance policies (as well as tax-deferred retirement savings plans) should also be periodically reviewed. A worksheet to record beneficiary designation information in one place can be found at <http://njaes.rutgers.edu/money/pdfs/beneficiary-designations.pdf>.

12. **General Insurance Check-Up-** Other types of insurance also need periodic reviews as life circumstances change or new products and services emerge. An example of the latter is implementation of the Affordable Care Act and development of government facilitated health insurance exchanges (Kim, Braun, & Williams, 2013). Things to consider in an insurance check-up include the following: 1. changes in risk exposure (e.g., children that begin driving) and family status, 2. affordability of policy deductibles vs. potential out-of-pocket expenses, 3. need for an umbrella liability policy for protection against potentially large damages, 4. need for disability insurance at various stages in one's working life, and 5. adequacy of property insurance, including replacement cost coverage, in light of recent high-profile natural disasters (Sullivan, 2010).

Investment Check-Up

13. **Investment Performance Review-** There are several ways to review investment performance over the past year. The simplest and least precise method is to simply answer the question "Did a particular investment or one's total portfolio go up or down in value?" Some people are satisfied knowing, for example, that an investment that was worth \$10,200 on January 1 was worth \$10,800 on December 31. A better performance metric is to compare personal investment results to an appropriate benchmark index such as the Standard & Poor's 500 index for U.S. large company stocks. An even better metric is to use the following formula:

January 1	Account balance	_____
December 31	Account balance	_____
Add	_____	Beginning balance
	+ _____	½ of deposits made throughout the year
	= _____	
Subtract	_____	Ending balance
	- _____	½ of deposits made throughout the year
	= _____	
Divide	_____	Adjusted ending balance by adjusted beginning
balance		

Subtract 1 and multiply by 100 _____

As an example, if someone invests \$200 per month, or \$2,400 over a year, in an investment with a \$15,368 starting balance and a \$19,627 ending balance, the investment return for that time period is $\$18427 \div \$16,568 = 1.11\%$ or roughly 11% (Brennan & O’Neill, 2009).

14. Investment Risk Tolerance Analysis- Investment risk tolerance is the degree in variability of investment performance that an investor is willing to withstand and is an important component of investing (Risk Tolerance, 2013). Ideally, investment risk tolerance should remain stable regardless of market conditions. However, studies have found that this is often not the case because people are very sensitive to investment losses. Grable, Lytton, & O’Neill (2004) and Shefrin (2000), for example, found that risk tolerance attitudes and behaviors appear to be elastic and changeable and are affected by recent stock market price changes. An empirically tested risk tolerance assessment tool that has been found to be valid and reliable (Grable and Lytton, 1999, Grable and Lytton, 2003) can be found at <http://njaes.rutgers.edu/money/riskquiz/>.

15. Investment Asset Allocation Check-Up- Asset allocation is the process of spreading investments among different types of investments (a.k.a., asset classes) to lessen risk and is often expressed in percentages (Kapoor, Dlabay, & Hughes, 2012). For example, an investor’s portfolio might contain 50% stocks, 30% bonds, and 20% cash equivalent assets (e.g., CDs and money market funds) based on personal factors such as the timing of financial goals and investment risk tolerance. Over time, portfolio weightings will shift with market performance so it is desirable to rebalance back to original asset class weightings if percentages shift by a certain amount (e.g.,

5%) or on a certain schedule as part of an annual financial check-up. Rebalancing can be done by selling investments in over-weighted asset classes (note: there will be capital gains taxes due on earnings in taxable accounts) or placing new deposits into under-weighted asset classes. Some retirement plan providers (e.g., TIAA-CREF) provide automatic portfolio rebalancing services upon request on a designated date each year such as a plan participant's birthday.

Later Life Financial Planning Check-Up

16. **Retirement Planning Check-Up-** Periodic reviews are needed to determine how much savings is needed to fund a financially secure lifestyle in later life and to determine whether plans are on track to save the required amount. The retirement check-up process involves the following steps: 1. determining an annual retirement income goal as a percentage (e.g., 80%) of pre-retirement income, 2. subtracting expected annual Social Security and/or pension benefits from the annual goal, 3. estimating life expectancy and a planned retirement age, 4. determining a preliminary amount of savings needed throughout the length of retirement, 5. totaling existing retirement savings (e.g. a 401(k) or IRA) and subtracting its future value at retirement age from the total savings need (i.e.; the result found in step 4), and 6. Calculating the final amount of savings needed and an annual and per-paycheck savings amount. A basic tool to perform this calculation is the *Ballpark Estimate* at <http://www.choosetosave.org/ballpark/>. Another helpful planning tool is online Monte Carlo calculators that determine the probability of having enough income to last throughout one's lifetime. A variety of online tools can be found by searching the words "Monte Carlo calculator."

17. **Social Security and Pension Check-Up-** Social Security is part of most people's retirement plans so it is important to periodically request and review a benefit statement that provides a summary of past earnings, estimates of retirement, disability, and survivors benefits, and estimated Social Security and Medicare taxes paid. Retirement benefit amounts are shown for age 62, full retirement age, and age 70. Having personal Social Security benefit information on hand makes a retirement planning calculation, such as the *Ballpark Estimate*, more accurate than a calculation made with an estimated benefit amount. Social Security statements are available online via <http://www.ssa.gov/myaccount/> They will also be mailed to workers who have not registered for online accounts on a limited basis every five years starting at age 25 and ending a age 60. Social Security also provides a "Quick Calculator" at <http://www.ssa.gov/oact/quickcalc/> to estimate benefits based on age and earnings.

18. **Estate Planning Check-Up-** Estate plans require periodic reviews as life circumstances change. For example, people might get divorced or have the person

named to handle their financial affairs predecease them. At the very least, a will is needed to direct the disbursement of a deceased person's assets. Beneficiary designations should also be reviewed to make sure that they are current and to ensure that there are no conflicts between a will and beneficiary designations or the titling of assets. A variety of downloadable estate planning worksheets can be found at <http://njaes.rutgers.edu/money/pdfs/session-v.pdf>. Other recommended estate planning tools are a power of attorney for financial matters, a living will, a power of attorney for health care decisions, and a special needs trust for beneficiaries with disabilities.

Personal Characteristics Check-Up

19. **Human Capital Check-Up-** A key component of financial management included in curricula and state curriculum content standards is earning an income (National Standards, 2013). An important determinant of earnings is human capital which can be defined as a combination of factors that affect a person's value as an employee or business owner. It is also colloquially referred to as a person's "skill set." Human capital determinants include formal and informal education, training, experience, work habits, and health status. Education, training, and health are the most important investments in human capital that people can make (Becker, 2008). Thus, an annual financial check-up should address the costs and benefits of various human capital investments which can include everything from learning how to use a smart phone, social media, or other technology tool to earning a college degree to increasing daily physical activity. A useful starting point is the *Human Capital Calculator* at <http://www.qwema.ca/calc/humancapital.aspx> to determine the current value of a person's human capital. The variables for wage and wage growth can then be adjusted to estimate the benefit of human capital investments. For example, a 35 year old earning \$50,000 with 3% wage growth has human capital valued at \$1,500,000. Bump the wage up to 75,000 with increased human capital (e.g., an advanced degree) and the value increases to \$2,250,000, a \$750,000 difference!
20. **Career Check-Up-** Human capital is the most valuable asset that many people have during their employment years. It affects salaries, bonuses, raises, and promotions that accrue over decades of work. Another important determinant of career advancement is future-mindedness and proactivity with respect to one's career. Sandberg (2013) used the term "leaning in" to encourage women to take proactive action to position themselves for jobs with advancement opportunities. Periodic career check-ups should consider strategies to: 1. improve job performance and visibility, 2. add value to one's employer (e.g., generating revenue or reducing operating expenses), 3. differentiate oneself from workplace peers, 4. provide community or professional association leadership, and 5. take advantage of

opportunities for advancement with one's current employer or in alternative employment venues. Costs and benefits of employee benefits with current and potential employers should also be reviewed as they change over time (e.g., many public sector benefits are being scaled back).

21. **Lifestyle Change Check-Up-** Changes in someone's personal life and family status often affect personal finances. Examples include marriage, adding children by birth or adoption, children leaving home, children returning home (sometimes with children of their own), divorce, widowhood, remarriage, retirement, and moving. Financial implications of life events include increased or decreased tax write-offs, increased or decreased income, increased or decreased household expenses, a need for life insurance, and changes in estate planning. Certain age-based milestones also affect personal finances such as a higher standard deduction for taxpayers age 65 or older, required minimum distributions from tax-deferred retirement savings plans starting at age 70 ½, and discounts and property tax reductions available for older adults.
22. **Health Finance Check-Up-** Health and personal finances are related to each other in dozens of specific ways (O'Neill & Ensle, 2013; Sharpe, 2008). For example, good health can enhance workplace productivity and reduce health care expenses, both of which make it easier to save money for retirement and other future financial goals. Thus, another key lifestyle factor to include in a financial check-up is an assessment of personal health finance status. This can include everything from increased or decreased out-of-pocket costs for health insurance due to changes in employee health benefit plans to calculating the annual cost of unhealthy behaviors, such as smoking, to budgeting for expenses associated with a recently diagnosed medical condition (e.g., diabetes). O'Neill (2008) described ten health finance topics that financial advisors need to understand and suggests that financial practitioners frame discussions about health status within the context of financial topics such as retirement savings projections and long-term care costs.

Assessment and Comparison Tools

23. **Online Financial Self-Assessment Tool Scores-** Online surveys or quizzes that have been found to be valid and reliable through empirical research can provide valuable financial self-assessments. An example is the *Personal Financial Wellness (PFW) Scale* developed by the Personal Finance Employee Education Foundation (PFEEF) available at <http://www.pfeef.org/scale/well-being.html> (Prawitz, Garman, Sorhaindo, O'Neill, Kim, & Drentea, 2006). The *PFW Scale* is an eight-item, self-reported measure of financial distress/financial well-being that can be used to gauge levels of financial wellness compared with other Americans. Upon completion of the

PFW Scale, users receive a personal score that can be compared to norms for the general population of adults in the United States. These norms were recently updated following the global financial crisis and revised downward to reflect the fact that Americans, on average, feel more financially distressed than when initial norms were established in 2004 (Prawitz & Cohart, 2013). To use the *PFW Scale* in financial education (e.g., as a pre- and post-test for an educational program), practitioners must complete an online Permission Form at <http://www.pfeef.org/scale/permission-form.php>.

Another helpful online self-assessment tool is the Rutgers Cooperative Extension *Financial Fitness Quiz*: <http://njaes.rutgers.edu/money/ffquiz/>. The quiz consists of 20 equally-weighted items (e.g., “I pay credit card bills in full to avoid interest charges”) to which respondents are asked to select the response that best describes their frequency of performance of recommended financial management practices. Seventeen of the quiz items have the following five-part Likert-type scale responses: always (5), usually (4), sometimes (3), seldom (2), and never (1). For the remaining three items (e.g., “I have a current will”), respondents are asked to respond with “yes” (5) or “no” (1). Total quiz scores can range from 20 to 100 with higher scores indicating more frequent performance of the 20 recommended financial practices. O’Neill & Xiao (2012) compared the scores of 10,661 respondents from 2005 through 2010 and compared two cohorts who completed the quiz before and after the December 2007 start of the Great Recession. Significant time period differences were found in a positive direction for the frequency of performance of 12 financial practices. Rutgers Cooperative Extension also has five additional online quizzes to help users self-assess identity theft risk factors (<http://njaes.rutgers.edu/money/identitytheft/>), personal health and finance behaviors (<http://njaes.rutgers.edu/money/health-finance-quiz/>), personal investment risk tolerance (<http://njaes.rutgers.edu/money/riskquiz/>), personal resiliency (e.g., financial, social) resources (<http://njaes.rutgers.edu/money/resiliency/>), and credit management practices (<http://njaes.rutgers.edu/money/wise-credit/>). The quizzes have two primary purposes: to provide users with instant feedback on their financial practices, including a score and recommended action steps, and to generate data to support ongoing empirical research about participants’ financial practices.

24. **Comparison with Other Americans: Median Income and Net Worth-** As stated at the outset of this article, some people are motivated to improve their finances by comparing their financial status to that of others. Thus, it is helpful to know the median income and net worth of U.S. households in case people ask “comparison” type questions. According to the 2010 Survey of Consumer Finances, the average U.S. family’s net worth dropped almost 40% between 2007 and 2010 in the wake of the financial crisis. Median net worth in 2010 was \$77,300, down from \$126,400 in

2007, and median income was \$45,800, down from \$49,600 in 2007 (Bricker, Kennickell, Moore, & Sabelhaus, 2012; Riley, 2012). Much of the decline in net worth was attributable to a sharp decline in housing values which have slowly started to bounce back.

25. **Comparison with Other Americans: Income and Net Worth Percentiles-** Another way to compare personal financial status to others is to assess one's standing in terms of income and net worth percentiles (e.g., being in the top 10% of households by income and/or net worth). According to 2012 data from the Tax Policy Center, the top 1%, 5%, 10%, and 20% U.S. household annual incomes are \$521,411, \$208,810, \$148,688, and \$107,628, respectively. The top 1%, 5%, 10%, and 20% U.S. household net worth figures are \$6,816,200, \$1,863,800, \$952,200, and \$415,700, respectively (Saunders, 2012).

Summary

This article described a “tool kit” of 25 resources, techniques, and metrics that financial practitioners can use to assess clients' individual/household financial wellness or teach others so they can do their own self-assessments. Readers are encouraged to become familiar with the dozens of resources that were discussed and to try them out personally as well as with their clients. Examples include taking the *Financial Fitness Quiz* and *Investment Risk Tolerance Quiz* from Rutgers University and the “Wealth Test” from the book *The Millionaire Next Door*. Other suggested strategies are creating personal financial ratios, ordering and reviewing a credit report, doing a life insurance needs analysis and retirement savings needs analysis, downloading a Social Security benefit estimate, and making sure that beneficiary designations and estate planning documents are current.

It should be noted that some of the financial toolkit metrics described above may fit middle- to upper-class persons better than low-income persons and may need to be adapted. Different metrics will also be of more interest to people at various stages of the life cycle or when certain financial market trends (e.g., a recession) occur. Finally, new financial self-assessment tools (e.g., phone apps) should be developed to better accommodate the needs and learning style preferences of future generations of consumers.

Endnote

The author is associated with development of the online Rutgers Cooperative Extension personal finance fact sheets cited in this article and the development and collection of data from financial self-assessment tools housed on the Rutgers University server (see financial assessment metric #23).

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