

## WHY DON'T CONSUMERS ESTIMATE NET WORTH?

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A personal net worth statement, or balance sheet, can give consumers with a wealth of information (Garman & Fogue, 1991). A net worth statement provides a snapshot of a household's financial situation at a given point in time. When analyzed in terms of ratios, as suggested by Prather (1990), a net worth statement can be a valuable tool for evaluating a household's financial health. For example, a series of net worth statements done over a period of years can illustrate a household's progress toward financial goals such as paying off debt, increasing the proportion of the portfolio held in growth assets, or increasing liquidity.

Despite the potential usefulness of household net worth statements, the research literature suggests that consumers use net worth statements far less than budgets or cash flow statements. For example, Davis (1987) found that 82% of the respondents in a sample of money managers had a plan for spending and saving income, while only 50% reported estimating their net worth. Lawrence, Carter and Verma (1987) found a similar percentage of their respondents made budgets (81%) but less than a third (31%) estimated their net worth. Accordingly, the purposes of this study were to: a) determine what proportion of households reported estimating their net worth; b) identify obstacles which might prevent or discourage households from estimating their net worth; and c) determine if selected demographic characteristics separated households that estimated net worth from those that did not. This information can be used to design educational programming that will more accurately target the latter group.

### Data and Methods

The target population was non-metropolitan households in Kansas. A two-stage cluster sample was drawn by selecting counties in the first stage and residential telephone listings in the second stage. The investigators mailed a questionnaire to sample households in the spring of 1984, following procedures recommended by Dillman (1978). Of

1,200 households contacted, 672 (56%) returned usable responses.

The majority of respondents (79%) were married. Mean household size was 2.7 persons and mean education level was 2 years post-secondary. Over one-half had received some formal education beyond high school. Respondents ranged in age from 19 to 94 years and their mean age was 48 years. Pretax income was reported in categories ranging from less than \$5,000 a year to over \$100,000 and the median income category was between \$20,000 and \$25,000.

A series of questions on financial management asked "Do you estimate your household's net worth, that is, every so often do you add up the value of everything you own, then add up all your debts, and compare the two in order to see how you're doing financially?" Depending upon their answer (yes or no), respondents were led to a set of follow-up questions. Those who responded affirmatively were asked "How often do you do this?" Those who responded negatively were asked, "Why don't you do this [estimate your net worth]?"

The Pearson chi-square statistic was used to determine if a relationship existed between the dependent variable, estimating net worth, and two independent variables, age and income. Previous research had identified a relationship between the two independent variables and the amount of net worth a household accumulates ("Household Wealth," 1990; Prather, 1990). Thus, the researchers believed that these variables might also be related to the probability of estimating net worth. Respondents were divided into three approximately equal age and income groups for the chi-square analyses.

### Findings

Respondents were evenly split between those who estimated their net worth and those who did not (see Table 1). Of those who reported preparing net worth statements, the majority (64%) made annual estimates as recommended by financial management experts (Block, Peavy, & Thornton, 1988; Garman, 1993; Gitman & Joehnk, 1990). Of the respondents who did not estimate net worth, almost half said they had "never thought about it," and roughly another quarter said they "don't need" to. Only 9% of those who did not prepare net worth statements saw time as a constraint, and only 5% reported that they "didn't know how" to estimate their net worth. Among the

"other" reasons for not estimating net worth, two themes emerged. Ten respondents reported that they lacked debts and therefore saw no reason to estimate net worth. Another 9 made comments like "too depressing," "too discouraging," or "don't want to know."

Table 1. Percentage of Respondents Who Estimated Net Worth

Question	Responses	
	n	%
Do you estimate your household's net worth . . .? (n=672)		
Yes	336	50
No	336	50
[If yes] how often do you do this? (n=329)		
once a year	210	64
more than once a year	93	28
other	26	8
[If no] why don't you do this? (n=328)		
don't know how	16	5
takes too much time	29	9
don't need to	86	26
never thought about it	151	46
other	46	14

Note. Percentages may not sum to 100 due to rounding.

The chi-square analyses revealed that both age (see Table 2) and income (see Table 3) were related to the dependent variable. Specifically, while those who estimated net worth were almost evenly distributed across the three age categories, the plurality (50%) of those who did not estimate net worth fell in the youngest age bracket.

Table 2. Percentage Estimating Net Worth by Age (n=571)

Question	Age Category					
	19 to 39		40 to 59		60 and over	
Estimate net worth	n	%	n	%	n	%
Yes (307)	99	32	109	36	99	32
No (264)	131	50	73	28	60	23

$$\chi^2 = 11.92, \text{ d.f.} = 2, p = .003$$

Note. Listwise deletion of cases reduced the number of cases. Percentages may not sum to 100 due to rounding.

Table 3 shows the percentages of respondents who estimated net worth by income. Those who did not estimate net worth were fairly evenly distributed across income categories; of those who did estimate net worth, the plurality (50%) were in the highest income brackets.

Table 3. Percentage Estimating Net Worth by Income (n=520)

Question	Pretax Income Category					
	Under \$15,000		\$15,000-\$25,000		Over \$25,000	
Estimate net worth	n	%	n	%	n	%
Yes (308)	83	27	71	23	154	50
No (212)	81	38	71	33	60	28

$$\chi^2 = 19.53, \text{ d.f.} = 2, p < .001$$

Note. Listwise deletion of cases reduced the number of cases. Percentages may not sum to 100 due to rounding.

## Implications for Consumer Education

The majority of those who did not estimate net worth reported either that they saw no need to (26%) or that the idea had simply never occurred to them (46%). These findings suggest that consumers, especially younger and lower income consumers, are not receiving and internalizing the message that a net worth statement is a useful financial tool. Perhaps the best way for consumer educators to convince their audiences that net worth statements can be useful is to show how the information from the net worth statement can have an impact on their decisions about saving, insurance, and credit. A net worth statement can help the consumer identify the amount and source of liquid funds that could be used to cover emergencies. By estimating the value of personal property, gaps in insurance coverage may become evident. When used in conjunction with information on income and monthly payments, the net worth statement can be a valuable aid in identifying potential credit problems or, conversely, assessing the household's ability to assume more debt. By integrating the topic of net worth statements into other financial subjects, consumer educators can encourage those consumers who do not presently estimate their net worth to see the many reasons for doing so.

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