WEALTH ACCUMULATION PERCENTAGE CALCULATION

What is the best way to monitor how well you are saving money and paying down your debt? One of my clients who was a good saver, went through a rough year where, despite his high income, he felt that he had little to show financially for the year's savings. After looking at his assets (savings and investments) at the end of the year vs. the end of the prior year, we confirmed that, in fact, he had saved very little new money. Next we looked at the amounts he owed on his debt at the end of the year vs. the end of the prior year. That particular year turned out to be a year in which he put 20% of his total income toward paying off debt instead of a combination of saving new money and debt pay off, as he had done in prior years. He had applied the same percentage of his income towards his wealth accumulation program as he had done in prior years. Both of us felt a sense of relief. As a result of this insight, I developed a **wealth accumulation percentage** calculation and the Financial Plan Accumulation Progress worksheets.

Your wealth accumulation percentage calculation is a good number to look at to determine how well you are progressing on your wealth accumulation. It looks at the net amount of new dollars going into your investments and the net amount of principal payoff on your debts over a year's time. The total of these dollar amounts is then divided by your income for the year to arrive at your **wealth accumulation percentage**.

George Clason in "The Richest Man In Babylon" (ISBN 0-452-26725-0) advises us to dedicate 10% of our total income to savings and an additional 10% of our income to paying down our debts as the key to becoming wealthy. The wealth accumulation percentage calculation looks at these percentages. How is this calculation done?

Use the worksheets on the following pages to help determine your **wealth accumulation percentage** for the year.

- **Part I, Assets –**
  - In this section, fill in the market value of your liquid investment assets as of the end of the current year and the end of the prior year. List the year end values of all your fixed income investments including savings accounts, money market funds, CD's, US Treasuries, and any bonds involve loaning your money to banks, the US government, municipal governments, and corporations. Also list the year end values of all of your equity investments including stocks, and mutual funds investing in stock. Include the balances in your retirement accounts as well.
  - In the fourth column (Column D), subtract the values at the end of the prior year, from the values at the end of the current year to calculate the change in your assets for the year. Note that Column D, the Net Increase (Decrease) in Assets represents the amount of net new dollars invested in your savings program from your current income for the prior year plus or minus the increase or decrease in market value of your investment assets.
  - Finally add the totals in column D to arrive at the Net Increase or (Decrease) in Assets for the year. This value is $A,AAA. Note that a positive number means that you your total investment assets have

increased from the prior year while a negative number means that your total investment assets have decreased from the prior year.

- **Part II, Debts**
  - In this section, fill in the balance of all your debts owed to others at the end of the current year and the end of the prior year. Your debts include business and practice notes, car loans, student loans, personal loans, first and second mortgages, home equity loans, lines of credit, credit cards, and other obligations you have where you are required to make monthly payments of principal and interest.
  - Do not include leases or debts on rental property in this worksheet. Leases generally cannot be paid off early without substantial penalty. Because we are working with liquid assets, rental property and any accompanying mortgages are also not included in the worksheets.
  - In Column B, list the remaining principal balance due on each of these debts at the end of the current year. In Column C, list the principal balance due on each of these debts at the end of the prior year. In Column D, subtract balances due at the end of the prior year from the balances due at the end of the current year. A positive number in Column D means that you have paid down the principal balance due on that debt. A negative number in Column D means that you have increased your borrowing on that debt. Finally total column D at $B,BBB to calculate the total net payoff (new borrowing) on debts for the current year.
- **Part III, Income**
  - In this section list all of your income for the current year, both taxable and non-taxable. If you have an unincorporated business, or a business with an S corporation, and no rental property income or loss, you can use your gross income from page 1 of last year's income taxes, Form 1040. Add any tax free income to that number to calculate your total income for the year. Add the amounts in Column B to calculate your total income $C,CCC for the current year.
- **Part IV, Wealth Accumulation Percentages**
  - In this section, Column B fill in the total from **Part I Assets**, the Net Increase or (Decrease) in Assets for the year, $A,AAA. Additionally fill in the total from **Part II Debts**, the net payoff (new borrowing) on debts for the current year, $B,BBB. Add these two numbers together to arrive at $D,DDD. This amount is your total wealth increase or total wealth decrease for the year.
  - Now go to Column C. Calculate the percentages in column C by dividing the amount in column B to the immediate left by the total income for the year, $C,CCC. Add the percentage of income for total liquid asset increase (decrease), S.SS% and the percentage of income for total net

payoff (new borrowings) on debts, P.PP% to find the percentage of income of total wealth increase or total wealth decrease for the year.

Your **wealth accumulation percentage**, T.TT% is a good indicator of how well you are able to accumulate wealth. We are looking at a percentage in addition to your total change in your liquid assets, $A,AAA. The amount that you can increase your wealth depends on your income. Someone with income of $50,000 who is accumulating $10,000 for the year (20% wealth accumulation percentage) is actually making better progress with wealth accumulation than someone with income of $500,000 who is accumulating $50,000 for the year (10% wealth accumulation percentage). The percentage of your income going into your wealth accumulation will affect your ability to increase choice in your life later on. Based on your average income over your lifetime, a higher percentage accumulation will mean more choice and greater financial independence in your life.

In order to accumulate a reasonable amount of wealth to provide investment income, you will need to keep your wealth accumulation percentage at or above 20% over a long number of years. Many people have negative percentages over several years. They simply spend all of their income and then some. Low percentages of wealth accumulation will mean that when you stop working for any reason, your lifestyle will need to be drastically cut back. Some people are able to achieve very high accumulation percentages at 30 to 35% of their income. Over a long period of years, they will have greater and greater choice as to whether and how they want to work.

Wherever your percentage of wealth accumulation is for the past year, you can use this worksheet to set and monitor savings and debt payoff goals for future years. By setting specific goals, monitoring your progress, and making changes as you proceed on your financial journey, you increase your chances of achieving financial independence.

Wealth Accumulation Percentage Worksheet:

Part I: Assets:

Column A	**Column B**	**Column C**	**Column D**
List of Liquid Investment Assets	**Market Value at End of Current Year**	**Market Value at End of Prior Year**	**Net Increase (Decrease) in Assets** **(B Minus C)**
Savings Accounts			
Money Market Funds			
Certificates of Deposit			
Bonds			
IRA's, SEP's, 401(k)'s and other pre-tax retirement plans			
Stocks			
Mutual Funds Invested in Stocks			
Other:			
Totals			$A,AAA

Part II: Debts:

Column A	Column B	Column C	Column D
List of Debts	**Amount Owed at End of Current Year**	**Amount Owed at End of Prior Year**	**Net Payoff (New Borrowing) on Debts (B Minus C)**
First mortgage			
Second mortgages			
Home equity loans			
Personal lines of credit			
Business loans			
Student loans			
Credit cards			
Car loans			
Other:			
Totals			$B,BBB

Part III: Income:

Column A	Column B
List of Income	**Income for last Year (1997)**
Salaries and Wages	
Schedule C Business Income	
Corporation Net Income (Your %)	
Partnership Business Net Income (Your %)	
Interest Income	
Dividend Income	
Other Income	
Total Income for last year	$C,CCC

Part IV: Wealth Accumulation Percentages:

Column A	Column B	Column C
	Amounts	Percentage of income
Total Net Savings (Net Liquidations) for the Year	$A,AAA	$A,AAA divided by $C,CCC equals S.SS%
Total net payoff (new borrowings) on debts for the year	$B,BBB	$B,BBB divided by $C,CCC equals P.PP%
Total net wealth accumulation (wealth depletion) for the year	$A,AAA plus $B,BBB equals $D,DDD	S.SS % plus P.PP% equals T.TT%

The following page shows
a sample schedule of
financial plan accumulation progress.

John & Jane Smith
Financial Plan Accumulation Progress
09/18/03

	1,999	2,000	2,001	2,002
Assets				

Investment Account	125,000	137,000	155,000	204,000
Investment Savings	10,284	20,087	31,190	12,500
Tax Account	43,850	24,430	7,000	4,000
Taxes (Due) Overpaid	5,619	(2,290)	(5,000)	0
Total Assets	184,753	179,227	188,190	220,500
Increase (decrease) in total assets (current year total assets less prior year total assets)		(5,526)	8,963	32,310
Debts				

Home Mortgage	425,000	396,000	391,000	384,000
Home Equity Loan	76,000	72,000	56,000	38,000
Student Loans	44,000	43,000	40,000	38,000
Total Debts	545,000	511,000	487,000	460,000
Decrease (Increase) in total debts (prior year total debts less current year total debts)		34,000	24,000	27,000
Total savings plus debt paydown		28,474	32,963	59,310
Adjusted Gross Income		325,204	330,000	360,000
Savings Rate (Total savings plus debt paydown divided by adjusted gross income)		8.76%	9.99%	16.48%