

Building **Wealth**

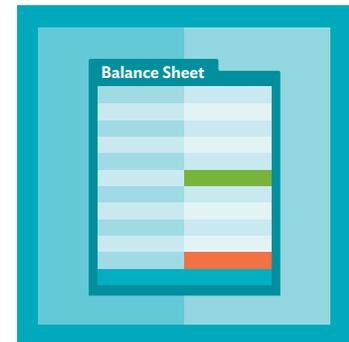
In the Classroom

Lesson 1

Budget to Save—The Balance Sheet



Federal Reserve
Bank of Dallas



Instructional Objectives

Students will:

- Define wealth using the concept of net worth.
- Measure wealth using a balance sheet.
- Distinguish between wealth-building assets and other types of assets.



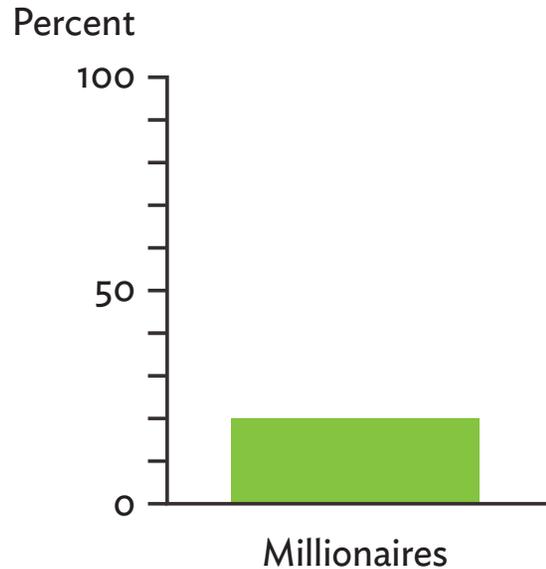
The Typical Millionaire

What is a typical millionaire?

Most millionaires inherit their wealth.

True

False



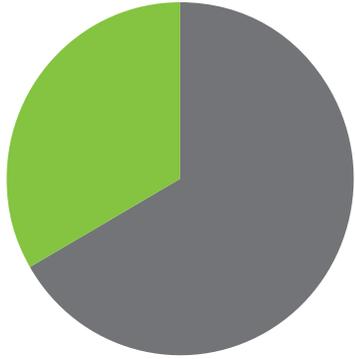
False

Only **21 percent** of millionaires **inherit their money**. The other 79 percent are the first in their family to become millionaires.

**Most millionaires have an income
of more than \$500,000 a year.**

True

False



- \$100,00 or more
- Less than \$100,000

False

One-third of millionaires **made less than \$100,000** in a single year.

U.S. workers with a college degree or certification earn more than those with just a high school diploma.

True

False



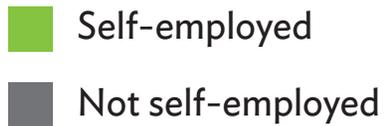
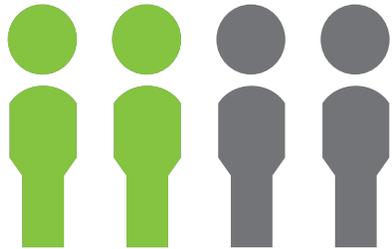
True

College graduates who hold a bachelor's degree earn 67 percent more than those who hold just a high school diploma.

**People who are self-employed
rarely become millionaires.**

True

False



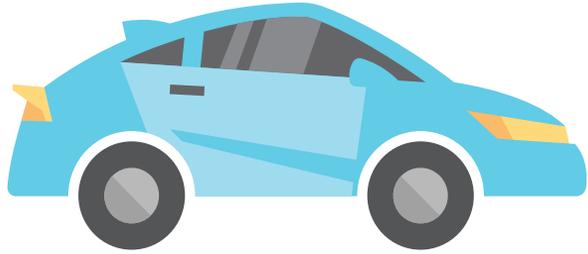
False

50 percent of millionaires
are self-employed.

Millionaires usually drive new cars.

True

False



False

50% of millionaires drive a car that is more than two years old.

Many millionaires drop out of college to start work.

True

False



False

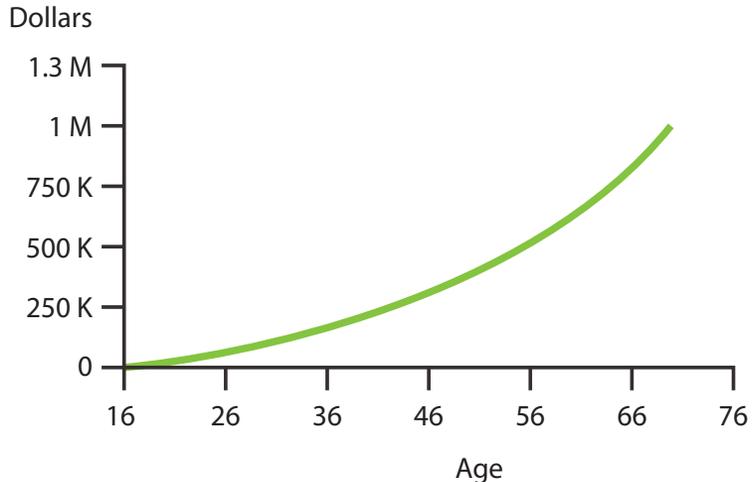
88% of millionaires **graduated**
from college.

**It is impossible to save enough to
be a millionaire.**

True

False

False



If you save \$103 a week, or \$450 a month, you will have \$1 million by the time you are 70 if you start at 16*. While this may be difficult when you first begin, it is a great goal to pursue.

*Amount assumes an annual inflation rate of 2 percent and a 4 percent investment return.

**What does
building wealth
mean to you?**

The first lesson is to help you understand the meaning of assets, liabilities and net worth.

Net worth formula

ASSETS - LIABILITIES = NET WORTH



An **asset** is anything you own that has commercial or exchange value.

- Savings
- Land
- Computers
- Vehicles



Wealth-Building Assets

Possessions that generally increase in value over time.

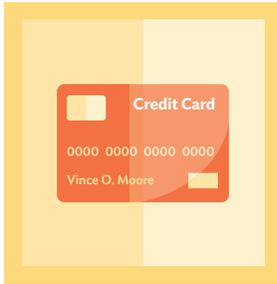
Examples: stocks, bonds, real estate and savings accounts



Depreciating Assets

Possessions that decrease in value over time.

Examples: cars, televisions, phones and laptop computers



A **liability**, also called debt, is money you owe, such as:

- Streaming subscriptions
- Student loans
- Payment plan for cell phone
- Car loans



Net worth is the difference between your assets (what you own) and your liabilities (what you owe). Your net worth is your wealth.

ASSETS - LIABILITIES = NET WORTH



Asset or Liability?

Read the following scenarios, discuss them with your team and identify items that are assets and liabilities.

Jose 25, Freelance App Developer

As you read, think about what items belong in Jose's balance sheet.



He has developed games for the iPhone, which enabled him to earn the money to pay cash for a small condo and a new car. He also has developed and copyrighted a mobile app that tracks the movement of the continents in real time, but it hasn't paid off yet.



Jose doesn't have a savings account, and he finds that his living expenses currently exceed his income. He has had to use his two credit cards to pay for living expenses until he gets more money coming in. He recently upgraded his television and sound system and took advantage of the retailer's 36-month no-interest offer.

Jose

Freelance App Developer

Condo

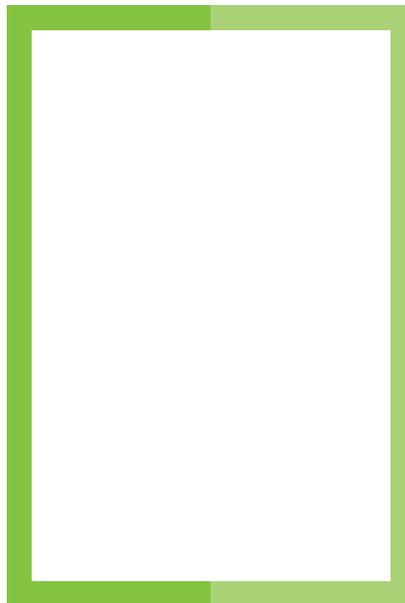
Credit card debt

Store-financed
home theater

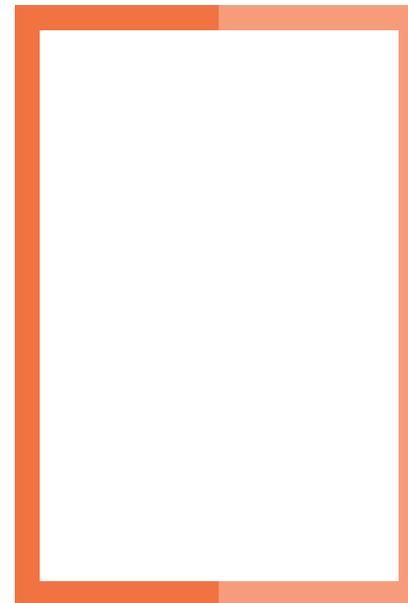
New car

Copyrighted
mobile app

Assets



Liabilities



Jose

Freelance App Developer

Assets

Condo

New car

Copyrighted
mobile app

Liabilities

Credit card
debt

Store-financed
home theater

Maria

28, Loan Officer

As you read, think about what items belong in Maria's balance sheet.



Maria lives in a suburban home she bought three years ago, taking out a 30-year mortgage. She is a single mom with two kids. Maria has a car and owes payments for the next two years.



She also has a student loan that is not yet paid off. But she has been contributing to a retirement account since she was 22.

Maria

Loan Officer

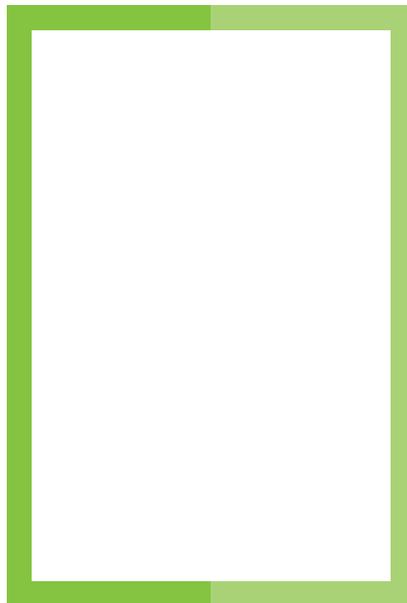
Home mortgage

Car loan

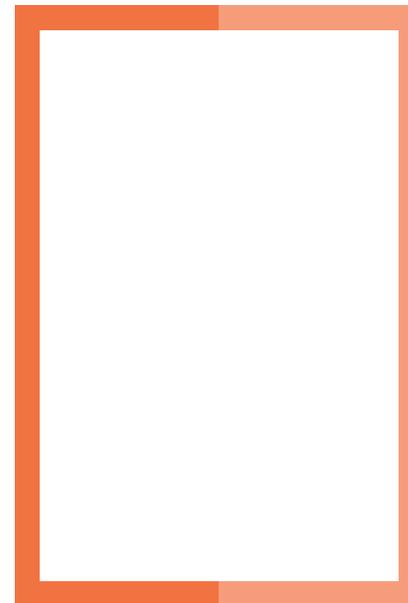
Student loan

Retirement
account

Assets



Liabilities



Maria
Loan Officer

Assets

Retirement
account

Liabilities

Home mortgage
Car loan
Student loan

Andrea

20, College Sophomore

As you read, think about what items belong in Andrea's balance sheet.



Andrea works part time to pay for school but still contributes \$25 to her savings account each month. She had to put her books on her credit card this semester but hopes to pay them off before the semester ends.



Andrea drives a 2015 car that is paid for. She has an extensive collection of bobbleheads. To pay for her summer study abroad, she borrowed \$1,300 from her bank that must be repaid with interest.

Andrea

College Sophomore

Savings account

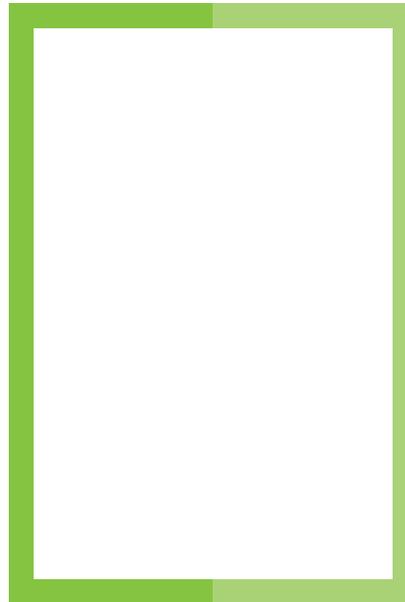
Credit card balance

Car

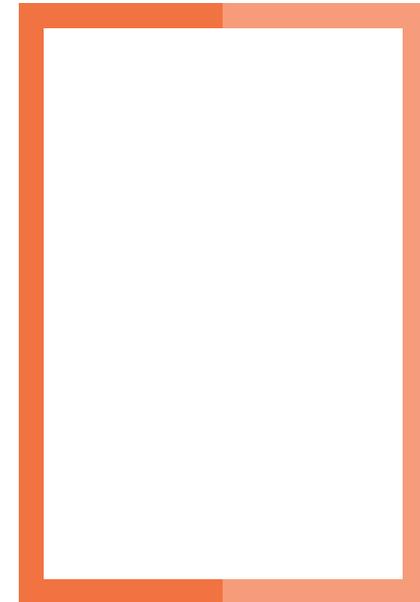
Bobblehead
collection

\$1,300 bank loan

Assets



Liabilities



Andrea

College sophomore

Assets

Saving
account

Car

Bobblehead
collection

Liabilities

\$1,300 bank loan

Credit card
balance

Sam

38, Engineer

As you read, think about what items belong in Sam's balance sheet.



Sam's bonus last year was 500 shares of company stock. Sam paid cash for a new car and financed a new boat for three years. He puts all his monthly expenses on a credit card but pays it off every month.



Two years ago, he broke his leg skiing and has a few unpaid medical bills. He recently co-signed on a loan to help his sister finance a new business.

Sam

Engineer

Company stock

Car

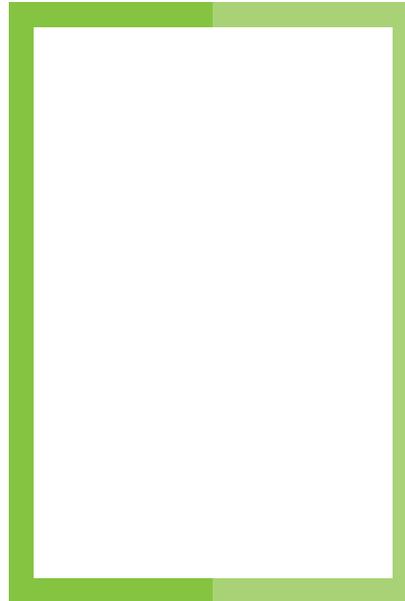
Boat loan

Medical bills

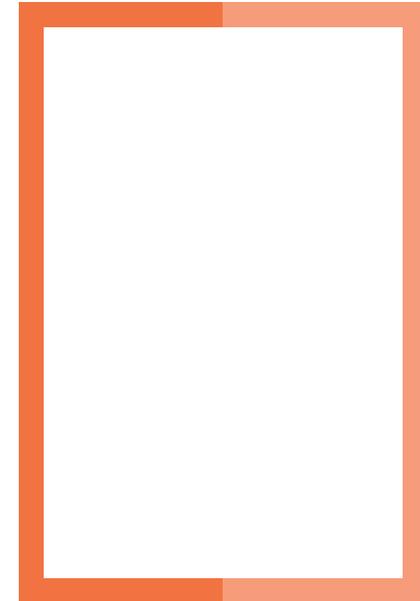
Co-signed a loan

Credit card
balance

Assets



Liabilities



Sam
Engineer

Assets

Company
stock
Car

Liabilities

Boat loan
Medical bills
Co-signed
a loan
Credit card
balance

Isabella

30, Analyst

As you read, think about what items belong in Isabella's balance sheet.



Isabella is a 30-year-old rising star at the tech company where she works in information security. She put herself through college with a job and some loans.



She buys the latest tech gadgets on her credit card, which she has been unable to pay off completely. Isabella maintains a small savings account at a local bank. She recently inherited \$75,000 when her grandmother died.

Isabella

Analyst

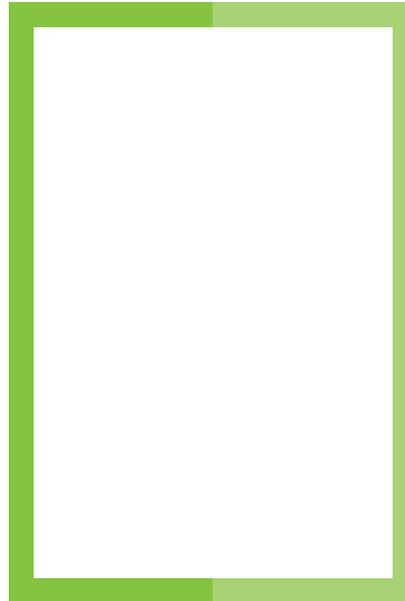
College loans

Credit card
balance

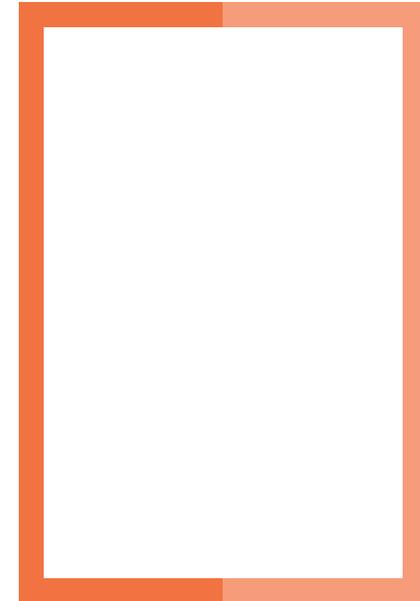
Savings account

Inheritance

Assets



Liabilities



Isabella

Analyst

Assets

Inheritance

Savings
account

Liabilities

College loans

Credit card
balance

Henry

67, Retiree

As you read, think about what items belong in Henry's balance sheet.



Henry has lived off his Social Security and retirement accounts for five years. He and his wife own their house. Henry recently had surgery and ran up some medical bills.



He also took out a loan to help pay for graduate school for his youngest son. He has an RV that he financed for five years and has two years left on the loan.

Henry

Retiree

Retirement
accounts

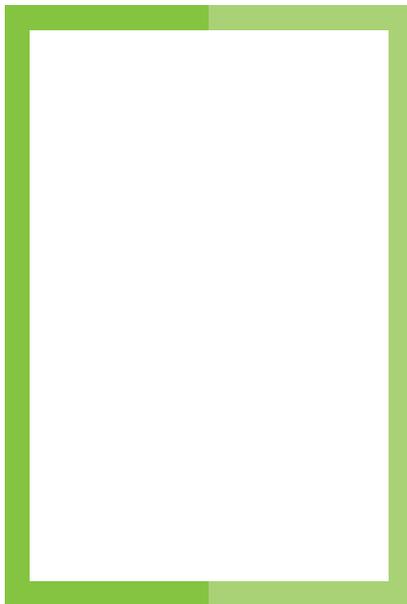
House

Medical bills

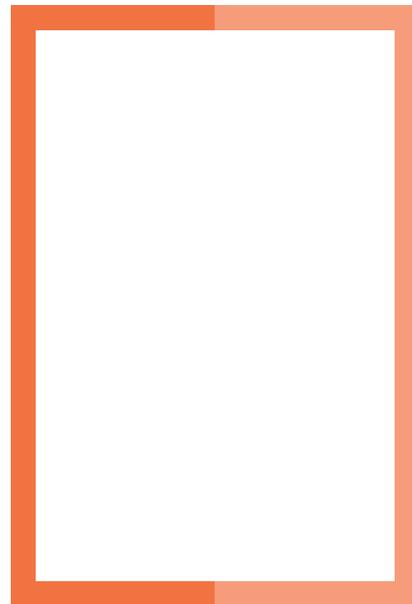
Graduate school
loan

RV loan

Assets



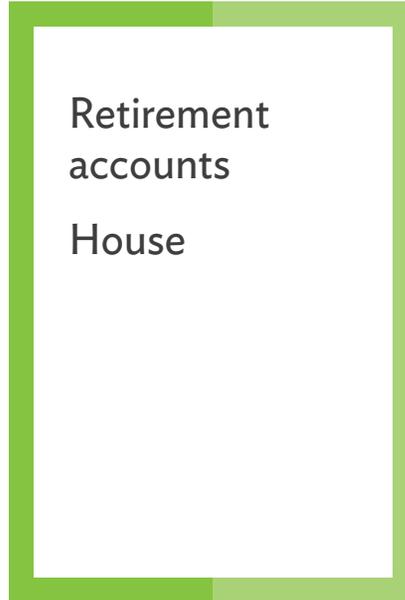
Liabilities



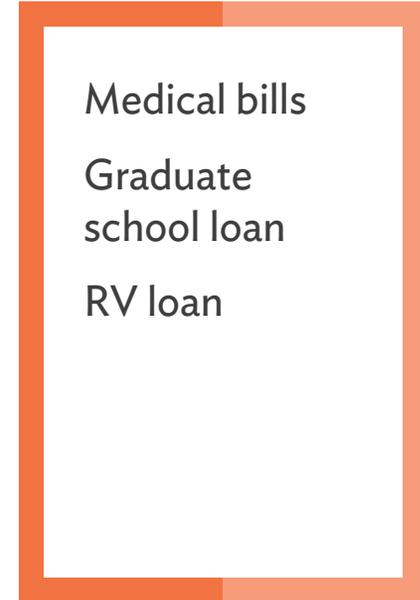
Henry

Retiree

Assets



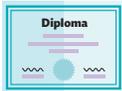
Liabilities



Kunal

41, Teacher

As you read, think about what items belong in Kunal's balance sheet.



Kunal is married and has a teenage son. He earned both bachelor's and master's degrees in education and is still paying on one college loan.



Kunal and his partner have 19 years remaining on their 30-year home mortgage. They own one car and are financing another for four years. In addition, they have been contributing to a college savings account for their son for five years. They recently took out a loan to pay for home repairs.

Kunal

Teacher

College loan

Home mortgage

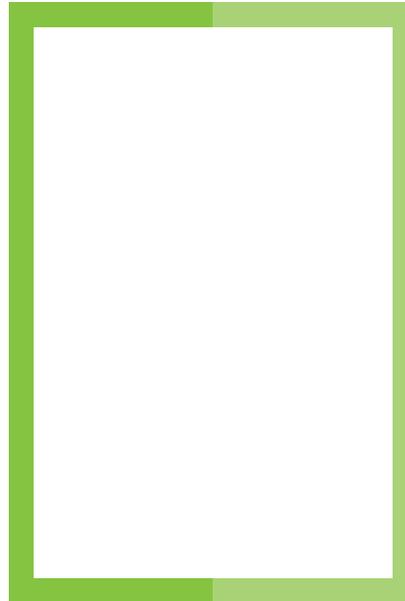
Paid-off car

Car loan

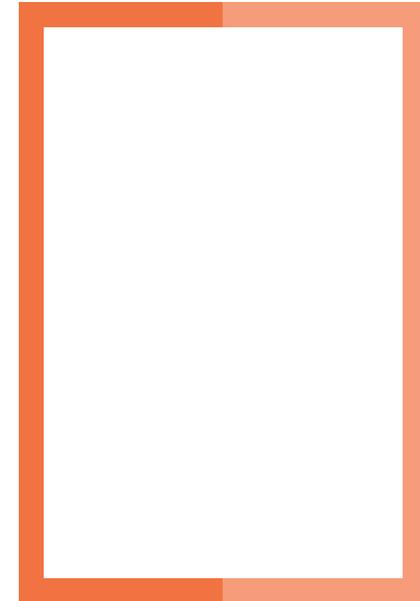
College savings
account

Home-repair loan

Assets



Liabilities



Kunal

Teacher

Assets

Paid-off car

College savings
account

Liabilities

College loan

Home
mortgage

Car loan

Home-repair
loan

Zoe 35, Lead Singer

As you read, think about what items belong in Zoe's balance sheet.



Zoe is lead singer of a band who gets paid when people stream the band's music and her band performs live. Over the years, she has amassed a substantial guitar collection.



She rents an apartment and owns the band's van for getting to gigs. She has checking and savings accounts at a local bank. She uses her personal credit card to support the band's travel and equipment, and it usually carries a balance of a few thousand dollars.

Zoe

Lead Singer

Music royalties

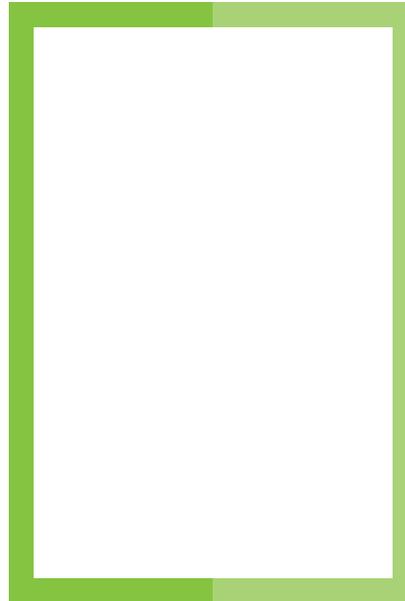
Guitar collection

Van

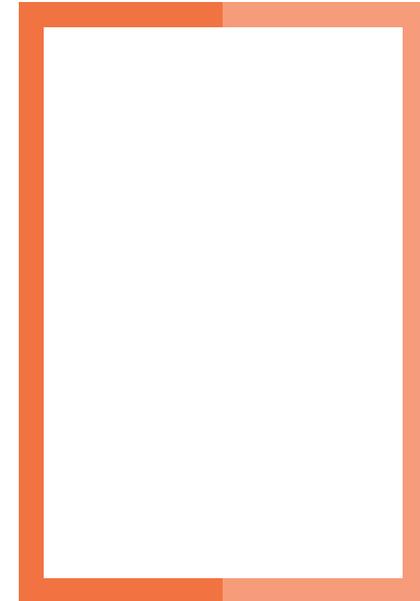
Checking and
savings accounts

Credit card
balance

Assets



Liabilities



Zoe

Lead singer

Assets

Music royalties

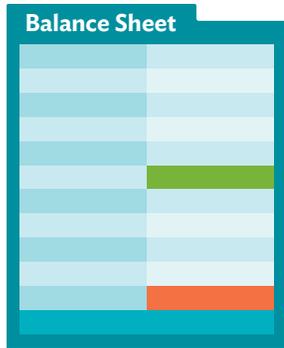
Guitar collection

Van

Checking and savings accounts

Liabilities

Credit card balance



Finding the Net Worth

Sort items into categories and do the math to determine an individual's net worth.

First, sort the items into their correct category

Description	Amount
Savings account from summer job	\$750
Prom dress credit card balance	\$200
Savings bond	\$150
Owed to mom for cell phone	\$120
2012 car	\$3,500
Video games	\$200
Car loan balance	\$1,500

Sandra's Balance Sheet

Wealth-Building Assets	
Depreciating assets	
Total assets	
Liabilities	
Total liabilities	
Total assets	
Total liabilities	
Assets - Liabilities = Net Worth	

Next, do the math to find Sandra's **total assets** and **total liabilities**

Sandra's Balance Sheet

Wealth-Building Assets

Savings bond	\$150
Savings account from summer job	\$750
Depreciating assets	
Video games	\$200
2012 car	\$3,500
Total assets	

Liabilities

Owed to mom for cell phone	\$120
Car loan balance	\$1,500
Prom dress credit card balance	\$200
Total liabilities	

Total assets

Total liabilities

Assets - Liabilities = Net Worth

Use the equation to determine
Sandra's net worth

ASSETS - LIABILITIES = NET WORTH

Sandra's Balance Sheet

Wealth-Building Assets	
Savings bond	\$150
Savings account from summer job	\$750
Depreciating assets	
Video games	\$200
2012 car	\$3,500
Total assets	\$4,600

Liabilities	
Owed to mom for cell phone	\$120
Car loan balance	\$1,500
Credit card balance for prom dress	\$200
Total liabilities	\$1,820

Total assets	\$4,600
Total liabilities	\$1,820
Assets - Liabilities = Net Worth	

Sandra's net worth

$$\begin{array}{rcl} \text{ASSETS} & \text{LIABILITIES} & \text{NET WORTH} \\ \$4,600 & - \$1,820 & = \$2,780 \end{array}$$

Sandra's Balance Sheet

Wealth-Building Assets	
Savings bond	\$150
Savings account from summer job	\$750
Depreciating assets	
Video games	\$200
2012 car	\$3,500
Total assets	\$4,600

Liabilities	
Owed to mom for cell phone	\$120
Car loan balance	\$1,500
Credit card balance for prom dress	\$200
Total liabilities	\$1,820

Total assets	\$4,600
Total liabilities	\$1,820
Assets - Liabilities = Net Worth	\$2,780



Try it on your own

Description	Amount
Checking account	\$900
Cell phone balance	\$250
College savings account	\$500
Annual gaming membership	\$100
Laptop computer	\$1,500
Laptop computer balance	\$600

Daniel's Balance Sheet

Wealth-Building Assets

Depreciating assets	
Total assets	

Liabilities

Total liabilities	
Total assets	
Total liabilities	
Assets - Liabilities = Net Worth	



Answer Page

$$\begin{array}{rcl} \text{ASSETS} & \text{LIABILITIES} & \text{NET WORTH} \\ \$2,900 & - \$950 & = \$1,950 \end{array}$$

Daniel's Balance Sheet

Wealth-Building Assets	
Checking account	\$900
College savings account	\$500
Depreciating assets	
Laptop computer	\$1500
Total assets	\$2,900

Liabilities	
Cell phone balance	\$250
Annual gaming membership	\$100
Laptop computer balance	\$600
Total liabilities	\$950

Total assets	\$2,900
Total liabilities	\$950
Assets - Liabilities = Net Worth	\$1,950

Summarize Learning Objectives

Assets are anything that you own that has value in an exchange or market.

Wealth-building assets can help you build wealth over time.

Depreciating assets can be useful but will usually not increase your net worth over time.

Summarize Learning Objectives

Liabilities are money that you owe.

Your **net worth** is the value of your assets minus your liabilities. This number will change over time.

A **balance sheet** is a tool to help you determine net worth.

Sources: The Typical Millionaire

SLIDES

- 5, 7, 15 **Dave Ramsey** daveramsey.com/research/the-national-study-of-millionaires
- 9 **Bureau of Labor Statistics** bls.gov/careeroutlook/2020/data-on-display/education-pays.htm
- 11, 13 **The Millionaire Next Door** by Thomas Stanley and William Danko
- 17 **Bank Rate** bankrate.com/calculators/savings/save-million-calculator

Building **Wealth**

In the Classroom

Up Next: Lesson 2

Budget to Save—Developing A Budget



Federal Reserve
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For Consumers

I want to learn how to build wealth for myself and my family.

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For Community Leaders

I lead a group of adults interested in improving our personal finance skills.

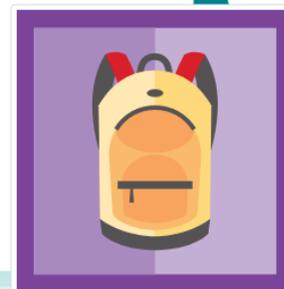
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For Teachers

I teach financial education to high school or college students.

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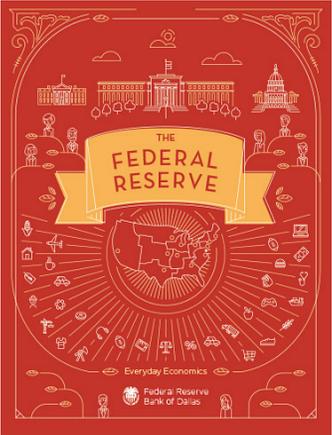
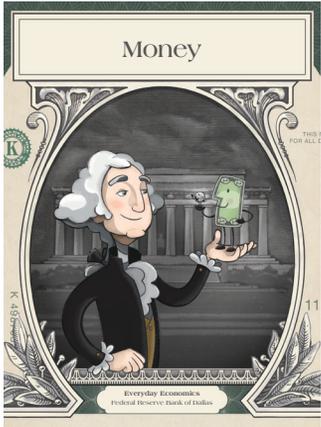
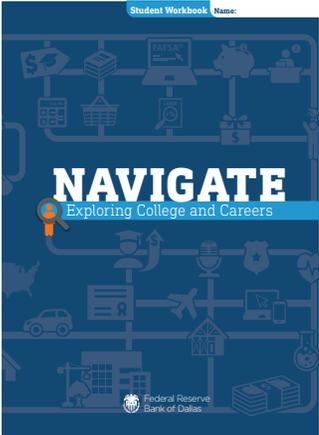
For Students

I am a student and want to learn how to create personal wealth and meet my financial goals.

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