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MANAGING IN TOUGH TIMES

FAMILY FINANCIAL MANAGEMENT

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THIS MONTH'S TOPIC:

Measuring Your Financial Health in the New Year

Have you ever heard someone discussing his "financial health?" Financial health refers to how well a person is doing financially and is based on a number of factors. Much like going to your family doctor for yearly checkups, it is a good idea to perform a financial checkup from time to time.

Unfortunately, it can sometimes seem overwhelming to measure your financial health because of all of the factors included. What further complicates measuring your financial health is the fact that financial advisors and firms often recommend different ways of doing so. However, measuring financial health can include more subjective measures such as your personal satisfaction with your financial status, the amount of financial stress you experience, and how financially independent you feel. In addition, you can also evaluate your financial health through more concrete measures.

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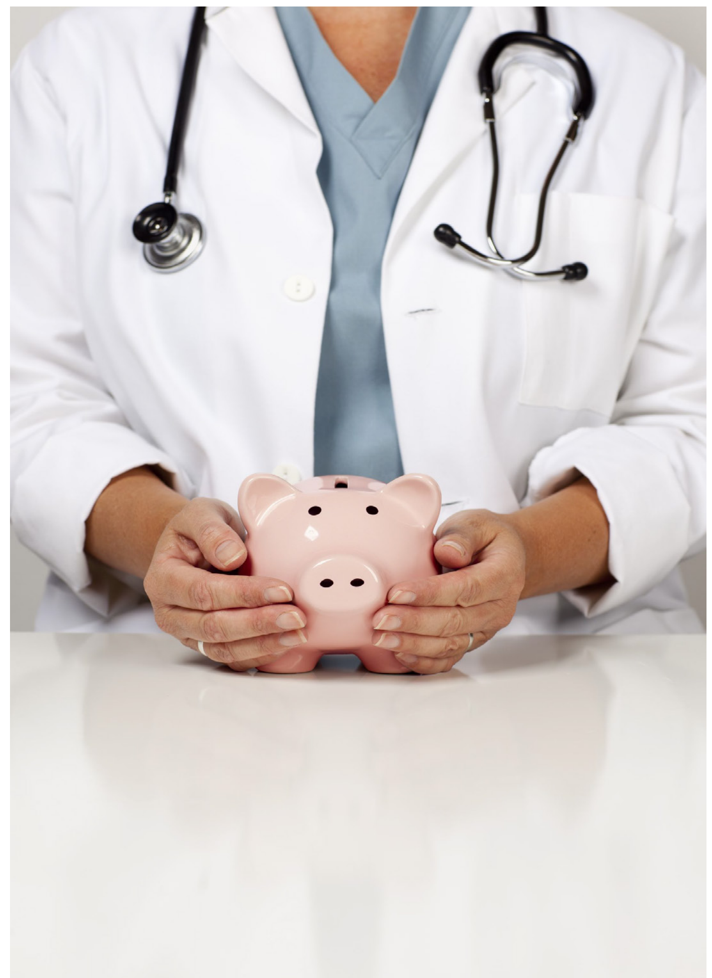

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Provided below is an overview of the various methods that a financial advisor may suggest in calculating your financial health. It is a good idea to calculate these values on a fairly regular basis. If you have questions, do not be afraid to reach out to a professional advisor who can answer them.

Do not worry if these ratios seem complicated. Numerous resources are available that can help you understand what each of these ratios means. What is important is that you are aware of what you need to consider when measuring your financial health.

- **Liquidity ratio.** Liquidity ratio refers to your ability to meet your necessary expenses when faced with an emergency, such as an unexpected home repair or medical bill. It is recommended that you keep a three-to-six month emergency fund, meaning that an ideal ratio is between three and six. To calculate this ratio: LIQUIDITY RATIO = CASH OR CASH EQUIVALENTS ON HAND / MONTHLY COMMITTED EXPENSES

- **Asset-to-debt ratio.** This ratio compares your assets, or those things that you own that have value, to your total existing liabilities. Liabilities include home loans, car loans, credit card debt, student loans, personal debts, etc. It is always desirable to possess more assets than debt. To calculate this ratio: ASSET-TO-DEBT RATIO = TOTAL ASSETS / TOTAL LIABILITIES

- **Current ratio.** The current ratio refers to your ability to meet short-term liabilities, which include all of your debt repayments to be made in the current year. CURRENT RATIO = CASH OR CASH EQUIVALENTS/SHORT TERM LIABILITIES

- **Debt-service ratio.** This ratio refers to the percentage of your income that is designated to debt repayment and the percentage of income remaining for other mandatory household expenses and savings. Lower ratios represent better financial management. DEBT SERVICE RATIO = SHORT TERM LIABILITIES / TOTAL INCOME

- **Saving ratio.** The saving ratio is perhaps the easiest to calculate and will provide you with insight as to how well your finances are managed and how likely it is that you can achieve your saving goals. SAVING RATIO = MONTHLY SURPLUS / MONTHLY INCOME.

- **Solvency ratio.** This ratio refers to your ability to repay all existing debts using your assets in the case of an emergency. You may wish to use a net worth calculator prior to figuring this ratio. SOLVENCY RATIO = NET WORTH/TOTAL ASSETS

Being aware of your financial health will help you to meet your short-term and long-term financial goals while avoiding unreasonable amounts of debt. Financial experts recommend calculating your financial ratios on a yearly basis, making any adjustments to your spending and saving patterns that you deem necessary.

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