Financial Freedom Risk Assessment

Overview

This questionnaire is a brief look at how the critical indicators of financial risk exist in your life right now. If you know your areas of risk you can make changes to brighten your future and reduce stress in your life.

Major factors that affect your financial risk and future freedom are:

- **Income stability**
  Your incoming cash flow from either wages or investments is necessary for maintaining your life style.

- **Emergency cash reserves**
  Whenever your regular income is interrupted your bills do not stop. Where do you turn for that money? Both monthly expenses and non-monthly major expenses (such as property taxes) need to be included.

- **Debt level**
  The greater your debts the fewer your day to day choices. This analysis focuses on short-term debt such as credit card balances. Home mortgages and automobile loans are inevitable for most people but are less of a risk factor than escalating short term debt that indicates living beyond your means.

- **Housing costs**
  The more of your routine income that goes to shelter expenses the less flexibility you have to adjust your cash outflow if income is reduced or temporarily disrupted.

- **Mortgage debt as a percent of the value of your home**
  If you own or are buying a home the value of that home compared to the amount of the mortgage is significant. If the mortgage loan rate is adjustable it is another risk factor.

- **Savings and retirement plans**
  Only you will look out for you. You need time on your side to accumulate enough money and assets to replace your wage income when you no longer work. The sooner you start a program the less risk you have of not having enough money to retire someday.

- **Age**
  The younger you are the less risk you have for achieving financial freedom. If you go bankrupt when you are 35 years old you still have many productive years ahead of you in which to recover and start over. This is considerably less true if you are 60 years old. This assessment is age adjusted to consider the difference of risk at various stages of your life.

- **Number of dependents**
  A single person with no one else to support can stand a great deal more risk and uncertainty than a parent of two teenagers soon planning to go to college.

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Numbers are points for the level of risk. The higher your score the greater your risk and the worse your financial health. Circle the choice that most nearly represents your situation, then add them up and calculate your profile

1. **Job and Income Security**

10	You are unemployed and have no regular income.
8	You work part-time or seasonally or your income is unpredictable.
6	You are in a situation that has a high probability of layoffs or downsizing.
5	Your have a job but you are not sure it will last as a career.
2	You have only a very small chance of losing your job.
0	You have very little risk of being laid off

2. **Emergency Cash Availability**

10	No cash, no credit
8	Any unexpected expenses will have to be put on a credit card or postponed
6	Enough is set aside for only one month's expenses
5	More than 30 days but less than six months expenses cash set aside.
2	You have more than six months but less than one year's expenses in ready cash reserves.
0	Greater than one year's total expenses is readily available.

3. **Debt Level** (exclusive of home mortgages and automobile loans)

10	Deeply in debt. Bankruptcy is a possibility
8	Outstanding debt is <u>increasing</u> and is more than six months net income.
6	Outstanding debt is <u>increasing</u> and is from one to six months net income.
5	Outstanding debt exceeds six months net income but the balance is <u>decreasing</u>
3	Outstanding debt is between one and six months and the balance is <u>decreasing</u>
1	One months net income in debt balances are not being paid off every month
0	Balances paid in full every month and no current debt

4. **Housing Costs** (Monthly mortgage payments including second mortgages or home equity loans, property taxes and insurance, average utility bills or if you do not own a home your monthly rent and utilities.)

10	Greater than 60% of gross income
8	50% to 59% of gross income
6	38% to 49% of gross income
3	30% to 37% of gross income
0	Less than 29% of gross income

5. **Home Loan to Value Ratio (LTV)** (See Note below on how to calculate.)

10	Behind in payments and foreclosure a real possibility
8	Greater than 100% (You owe more than your house is worth.)
6	90% to 99%
3	80% to 89%
1	Less than 80%
0	No mortgage (House is debt free or you rent)

6. **Retirement Planning**

10	No plan and no current contribution toward retirement
8	Only occasional contributions to a plan of savings
5	Up to 9% of gross income regularly being set aside for retirement.
3	10% of gross income being set aside
0	More than 10% of gross income being set aside routinely

Scoring Instructions

1. Add up all of your points on the six questions and enter the total on line **A** below
2. In the first column of the table go down to row with the number of your dependents.
3. Go across the row to the column for your age
4. Select the weighting factor and enter it on line **B.**
5. Multiple your risk points by your weighting factor to get your Risk Score

Example: You have 4 dependents and you are 44 years old.
Your weighting factor is 1.1 (10%)

Weighting Factor for Age and Dependents

Age >> ↓Dependents	<30	31 - 45	46 - 60	>60
0	.8	.9	.95	1.0
1	.85	.95	1.0	1.1
2 - 3	.9	1.0	1.1	1.2
4 +	1.0	1.1	1.2	1.25

Score Calculation

A. Add up the risk factor points __________

B. Multiple by the weighting factor X ______

C. Your Final Risk Score __________

Evaluation of your Financial Health

Score	Comment (Lower score equals lower risk)
0 - 12	Amazing. You are doing everything nearly right
13 - 25	Excellent. Pay attention to anything with a score of 3 or greater
26 - 38	Good. Make changes now where the score is 6 or more
39 - 51	Fair. Any deterioration is dangerous. Find things to change
52 - 64	Poor. Serious trouble is lurking if anything gets worse.
65- 75	Disaster! You may need professional guidance.

Note: How to calculate Loan to Value (LTV) of Your House.

Divide the outstanding balance on your home mortgage(s) by the market value of your house and multiply by 100 to get percentage.

Example: Mortgage Balance: $250,000 Market Value of House: $325,000
250,000/325,000 = .77 x 100 = 77% LTV

The Financial Freedom Assessment is from Gordon Bennett's book: ***Give Yourself a RAISE: How to have more money – less stress – financial freedom***, published by McBride and Bennett.

For more information or to download copies of this form visit www.FreedomMoneySystem.com