Fruit of the Vine FINANCIAL

# 5 WAYS TO MEASURE YOUR GENERAL FINANCIAL HEALTH

Personal finance measures and ratios can help give you a better general understanding of your current financial wellness and help you gauge your progress over time.

## Emergency Fund

We generally recommend that you have 3 to 6 months' worth of nondiscretionary monthly expenses (e.g. mortgage/rent, insurance, utilities, groceries, etc.) held as liquid assets, such as in cash, savings, or a money market account. The location should allow the funds to be readily accessible but not too easy to access that you're tempted to spend it on non-emergency expenses. These funds are intended to help provide a sufficient cushion in case of unexpected events or needed repairs.

## Housing-to-Income Ratio

This ratio can help home shoppers know how much house they can afford. It's generally advisable not to go over 28% of your gross pay.
*How to measure*: (Mortgage principal and interest (or rent) + property taxes + home insurance + utilities)/gross income.

## Debt-to-Income Ratio

The debt-to-income ratio includes all your debt payments, such as car loans, student loans, credit card payments, etc. in addition to your housing debt. Lenders will use this ratio to help determine loan eligibility, and it's generally advisable not to be higher than 36%.
*How to measure*: Sum of all debt payments/gross income.

## Debt-to-Assets Ratio

This ratio measures the amount of your assets that creditors own, and it decreases as you repay your debts. The debt-to-assets ratio is usually highest with younger people and decreases with age. The lower your ratio as you near retirement, the better.
*How to measure*: Total debt amount/total amount of assets.

## Savings Ratio

The savings ratio is designed to show how much money you're saving over a period of time. It's the amount of your income that you're setting aside for retirement or other long-term goals. This ratio factors in savings from all sources – employer-sponsored retirement plans, traditional IRAs, Roth IRAs, and taxable accounts. Savings earmarked toward an emergency fund, college, new home, or a vacation are excluded. In general, a saving rate of 10% - 20% is ideal, but if that amount is too high, try starting with a lower amount such as 5% and aim to increase the amount as you can afford to. The power of compounding can help your savings grow, and the more time it has to do this, the better.
*How to measure*: Savings + employer match/gross income.

If you would like to talk more about this or see how these measures fit into your specific financial circumstances and goals, please contact us.

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