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INSIGHT

What is your real worth?

written by Andrew Greeff

So, what then is our real worth? Is it not our earning ability? If it is our earning ability, what will it cost to guarantee that we will earn our real worth over our lifetime if we lose our earning ability?

We occasionally end up in situations where institutions ask us what our net worth is. These questions invariably lead us to analyse all assets and liabilities and we find the answer in subtracting liabilities from asset value.

Fleetingly, during this calculation in our minds we see our property, our investments and probably our vehicles too, often with some degree of pride and a feeling of accomplishment – and rightfully so as we work hard to afford these assets.

But, is that our real worth?

How does this value compare to the value of our health and how shall we calculate the value of health? We can calculate the cost of our health failing us. The medical profession can tell us what hip replacements will cost on average, how much we may expect to pay for the treatment of a heart attack or rehabilitation from a mild stroke. These are examples of the costs attached to treating us after we suffered from dreaded diseases but it still does not calculate the value of health.

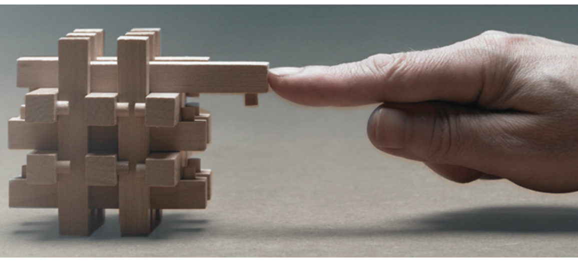
Proof exists that individuals with higher educational qualifications earn higher levels of income, and higher levels of income provide access to quality nutrition, quality water, quality health support, secure accommodation and cars with higher safety ratings. These are contributors to a healthier lifestyle and possibly a longer life. All the aforementioned, however, cannot protect us from accidents or hereditary ailments that may lead to serious health setbacks. But this still does not answer to the value of health.

Maybe we can look from another angle to find some sort of answer.

What is the value of your earning ability measured over your lifetime? A 28 year old, earning R 20 000 per month and expecting an 8% annual increase in income until retirement at age 65, will earn in excess of R 52 million during his or her working career. This income will afford a comfortable lifestyle and the accumulation of cosy and valuable assets if properly managed. It will also create capital that will finance retirement, the value of which is not included in the calculation of the R 52 000 000.

This R 52 000 000 is also in jeopardy if this individual's earning ability is compromised due to illness or accident. This loss will detrimentally affect net worth as we often purchase assets by apportioning future income as means of financing our current assets.

What is our most valuable single possession? Probably our residence or the upmarket vehicle parked in the garage? Are these insured against theft, accidents and fire? Yes, absolutely so, because these are precious and valued possessions. Are they worth R 52 000 000? Highly unlikely!



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What is your real worth? (continued)

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Chances are that, if we are still healthy, the cost will be less than what we pay to have our tangible assets protected via short term insurance contracts although the value of tangible assets may be considerably less than the value of our earning ability. And, to make it even more attractive, the taxman will subsidise the protection of earning ability by as much as 40% - making this protection of earning ability the bargain of a lifetime and one of the best kept secrets in our modern society. The ultimate question then is – how protected is your real worth?

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