2019

Michigan Personal Finance Challenge

Case Study

Rules

1. Each team is provided with incomplete financial information about a fictional family’s financial situation. You are not given all information necessary and are free to create additional information about your family if you wish.
2. Your team is charged to study this family’s finances and make recommendations as if you are their financial advisor. You can create a budget and expense sheet and anything else you might want to show them as you present your recommendation.

Most financial advisors suggest you follow the steps listed below in developing a plan for clients.

1. Assess Client’s Current Financial Position (Budget creation, Net worth statement, etc.)

2. Define Client Goals/Objectives

3. Answer Client’s Questions/Concerns

4. Develop Recommendations

1. You will create a Power Point presentation as a team and present it to the panel of judges. The presentation must not exceed 7 minutes in length. Judges will have 3 minutes for Q and A. Each member of your team should have a speaking part in your presentation. You may use any creative method of delivery to enhance your presentation. Your Power Point presentation must be loaded onto the provided flash drive and turned in no later than 12:00pm.
2. Your goal is to give the family advice for their future based on your knowledge of financially sound practices. Your teacher may not assist you in any way except to help make sure that you can access the technology. You may utilize multiple electronic devices as you prepare.



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| **Family Financial Profile** |

**FAMILY MEMBERS**

The following narrative describes some details about the fictitious Bradley family, a couple with 2 children. Their financial circumstances:

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| Name | Age | Employment | Annual Salary | Credit Score |
| Shawn Bradley | 32 | Human Resources Specialist | $65,000 | 690 |
| Heidi Bradley | 30 | Speech-Language Pathologist | $70,000 | 720 |
| Alyssa Bradley | 10 | Shawn’s daughter from a previous relationship. He has joint-custody so Alyssa is with him about 50% of the time. Shawn pays $450 per month in child support. |
| Jimmy Bradley | 5 |  |  |  |

The Bradleys have mentioned not knowing much about finance and want to ensure a secure retirement for themselves and college planning for their two children.

It is suggested that you create a budget for them using expenses that they may have and show what they are now spending plus other items. We have given you some of their expenses, but you should create the rest of their expenses from your knowledge of personal finance. The data provided and the following narrative is incomplete; however, you may discover some areas where their personal financial practices could be improved.

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| **GOALS** |

The Bradleys have recently decided to consult a financial expert on what they might do to improve their financial situation and achieve their goals.

Heidi recently received a $3,000 bonus and they want help to allocate it toward their financial goals.

They would like both of their children to attend a four-year university, without having a burden of excessive student loan debt. Both Shawn and Heidi struggled financially to get through college.

They would like to make sure the mortgage on their home would be paid off and the children’s college education would be taken care of in the event of one of their deaths.

Shawn and Heidi would like to retire no later than age 58 and plan on needing about 85% of their pre-retirement income to sustain their lifestyle in retirement. They are concerned about health care costs in retirement since they will not be eligible for Medicare until age 65.

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| **SAVINGS** |

Heidi contributes 3% of her salary to her 401(k) through Fidelity Investments. Her employer offers a 100% match up to 5%. The current value of her 401(k) is $40,000. She has invested her 401(k) investment in a mutual fund, Fidelity Select Energy Portfolio (FSENX).

Shawn also has a 401(k) invested with Fidelity. The current market value of his account is $24,000, invested in Fidelity Limited Term Bond Fund (FJRLX). He was contributing $300 per month into his 401(k), but reduced his contributions to $150 per month to help pay for Jimmy’s daycare costs. His employer doesn’t have a matching program.

Neither Shawn nor Heidi will receive a pension upon retirement.

Be sure to utilize the Bradleys current retirement savings to show how much they would expect to have at their desired retirement age of 58 if nothing changes. Also, be sure to show what changes need to be made and the impact it would have on their savings trajectory. You will likely want to use an online calculator to help you crunch the numbers. Be sure to consider the tax implications of different strategies in your recommendations.

The Bradleys don’t have an emergency fund. They have a working checking account with an average balance of $900.

Shawn and his brother own a rental home together. It has a fair market value of $152,000, but they still owe $85,000 on the mortgage. The house currently has a tenant and the rental income is the same amount the brothers pay to the bank each month for the mortgage.

The Bradleys do not have a college savings account for either of their children, but would like to get one started immediately. They are considering opening an UTMA account for their children, but have also heard about 529 accounts and would like some advice on this topic.

Shawn’s mother recently let the Bradley family know she started up a MESP 529 account for each of the kids when they were born. Alyssa’s account is now worth $7,000 and Jimmy’s account is worth $3,500.

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| **DEBTS** |

**HOME MORTGAGE**

They financed their home at a 4.5% interest rate and have 23 years left on a 30-year fixed rate mortgage with a balance of $170,000. The current market value of the home is $210,000.

 MONTHLY HOUSING EXPENSES

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| Principal & Interest | $1,379 |
| Property Tax | $350 |
| Homeowners Insurance | $85 |
| Private Mortgage Insurance (PMI) | $80 |
| Monthly Total | $1,894 |

**CREDIT CARDS/OTHER DEBT**

Heidi has a Capital One Quicksilver Cash Rewards credit card with a balance of $2,200 with an APR of 18%. She has been paying the minimum monthly payment of $88 per month. Shawn has a Costco Anywhere Visa® Card by Citi. The credit card has a 17.49% APR. There is currently a balance of $1,650 on the credit card. He has been paying the minimum monthly payment of $66 per month.

Heidi has $8,000 remaining on her student loan. She is paying 6.8% interest. Her monthly payment is $207 per month.

The Bradleys recently put a non-refundable $500 deposit on a family vacation to Disney World this summer. The total cost of the vacation is estimated to be about $8,000.

**TRANSPORTATION**

Shawn drives a 2016 Ford F-150 XL SuperCrew 4WD, which he bought new. The current monthly payment is $593. He has 30 months of payments left to make before the vehicle is paid off. The vehicle is financed at a rate of 6.9%

Heidi drives a leased 2018 Chrysler Pacifica. The monthly payment is $419 and the contract expires in September 2019.

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| **INSURANCE** |

**LIFE**

Shawn has a whole life policy. Shawn changed the beneficiary on the policy to Alyssa when he got divorced and hasn’t paid much attention to the policy since then. The policy provides a death benefit of $101,513. It has a cash surrender value of $8,062. The monthly premium is $94 per month.

Heidi has a group life insurance policy equal to 1x her base salary through her employer. Shawn is her beneficiary.

The Bradley children do not have any life insurance on their own lives.

**HEALTH**

The Bradley family gets its health care coverage through Heidi’s employer. Her employer just switched over to a high-deductible health plan with a $4,000 family deductible so the Bradley family doesn’t have a monthly premium payment. Heidi is wondering if there are any tax-advantaged programs available with her new health care plan. The family has determined that the coverage through Heidi’s employer is better than what is available through Shawn’s employer.

Heidi also has group long-term disability insurance, which covers 60% of her salary.

**AUTO**

Both vehicles are fully insured. Their comprehensive deductible for all vehicles is $100 while their collision deductible is $250. The Bradley family pays a total premium of $1,860 every 6 months to insure their vehicles.

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| **INCOME TAX** |

Shawn and Heidi are expecting a smaller tax return this year of $1,800 from the federal government in late April 2019, but owe the State of Michigan $110.

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| **OTHER THINGS TO KNOW** |

Alyssa would like to play travel softball next year. She has shown a lot of interest in the sport and has good athletic ability. The family is concerned how that may impact their budget.

The Bradleys feel vacations are important for family bonding and usually go up north and rent a cottage one week every summer.

Shawn would like to increase his income so he can do more to help the family meet its goals. He is willing to listen to any suggestions you may have that would increase the amount of income he brings in for the family. He is even willing to take on an additional job if necessary.

The family is willing to listen to any suggestions to cut their daily or monthly expenses they have.

In your presentation, you should consider covering the following questions and any other additional recommendations for the Bradley family.

1. How can they be more efficient in handling their debts?
2. What can they do to better address their goals?
3. Are there any changes needed to their insurance?
4. How should they plan for unforeseen expenses and emergencies?
5. What should they do about their retirement savings?
6. What’s the best use of the family’s tax return?
7. Do you have any advice regarding their income taxes?
8. What should they do with the inherited assets and other one-time sources of income or cash?