2021

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.
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 Brianna West and her children. Brianna is currently going through a divorce with her husband of 15 years. Her basic financial circumstance:

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| Name | Age | Employment | Gross Annual Salary | Credit Score |
| Brianna West | 40 | Dental Hygienist | $75,000 | 770 |
| Isabel West | 13 |  |  |  |
| Brady West | 11 |  |  |  |

Brianna’s divorce is almost finalized. Most decisions have been made, but a few financial issues remain up in the air, the most significant being if she will remain in the house or sell it. While she was married, her husband usually took care of the finances so she is not comfortable with financial decisions and wants to have confidence she is making the right choices for her family in both the short and long term. This is the reason she has come to you. Be sure to address the judges as if they were Brianna.

It is suggested that you create a budget for her family using expenses that the family may have and show how they are currently spending plus other items. We have given you some of her 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 her personal financial practices could be improved.

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| **GOALS** |

Brianna has recently decided to consult a financial expert on what she might do to improve her financial situation and achieve her goals.

Brianna needs to setup a retirement account for herself and needs to know how to invest her share of the couple’s current retirement savings.

Brianna’s daughter, Isabel, is involved in All-Star cheer and Brianna would like for her to be able to continue with the sport. Brianna will be responsible for 50% of all costs associated with cheer, which will likely bring her share to about $5,000 per year when all travel expenses are included.

Brianna would like to have enough money in her budget to save for at least one family vacation per year.

Brianna would like to have enough money for both her children to attend a four-year university, without having a burden of excessive student loan debt. Brianna would like to have enough money to pay for 50% of their college costs.

Brianna is unsure what to do for her housing situation. The only thing she knows is that she doesn’t want her children to have to change schools.

She had hoped to retire at 50, but she knows this is likely no longer possible. She would like to know what age she will likely have to work before she can afford to retire.

Brianna wants to be sure she is able to eliminate her debt over a reasonable time.

It is very important for Brianna that her budget is balanced and she doesn’t fall further into debt as she begins her new life situation.

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| **SAVINGS** |

As part of the divorce settlement she will be receiving half of the couple’s retirement savings from a 401(k). The Qualified Domestic Relations Order, or “QDRO”, identifies the couple’s 401(k) retirement account and that Brianna is the recipient of $125,000 from it. The QDRO allows the funds in the shared retirement account to be separated and withdrawn without penalty and deposited into a retirement account for Brianna. She currently needs to set up a retirement account for herself and needs specifics on what she should invest the $125,000 into.

Her employer offers a 100% match up to 6% of her salary and has a program setup with Fidelity. She needs immediate advice on what to do with the $125,000 as well as savings for retirement in the future. She is willing to put as much as she needs to into her 401(k) to ensure a comfortable retirement that allows her to enjoy traveling.

Brianna will not receive a pension upon retirement. She had hoped to retire at 50, but she knows this is likely no longer possible. She would like to know what age she will likely have to work before she can afford to retire. She would appreciate some different scenarios laid out for her based upon retiring at different ages. 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.

Since Brianna has had to pay her lawyer fees she no longer has an emergency fund. She has a working checking account with an average balance of $400.

Brianna does not currently have a college savings account for either of her children. As part of the divorce settlement, Brianna will be receiving $150 per month for each child that must be put into a vehicle to help the children pay for college. She needs advice on what she should do to start a college savings account for her children and what type of account to establish. Brianna would like to know what percent of the kid’s college the $150 per month will likely cover. She would like to pay for 50% of their college costs to reduce the student loan debt burden her children will have to face. Thus, she would like to know how much additional money she should be putting into the college fund she starts up to reach her 50% goal for each child.

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| **DEBTS** |

**HOME MORTGAGE**

Brianna, her soon to be ex-husband, and her children are all still living together in the marital home. She doesn’t want the kids to have to change schools, but she is unsure if she can afford to remain in the same home.

They financed their home at a 4.9% interest rate and have 20 years left on a 30-year fixed rate mortgage with a balance of $209,000. The current market value of the home is $295,000. The housing situation is what is keeping Brianna up at night. She doesn’t know if she should keep the house, which would require her buying out her husband’s share of equity built up in the home, and refinancing for $252,000 or if she should sell the house and find a new home for her and the two children. This is something Brianna wants addressed in any advice given to her.

 MONTHLY HOUSING EXPENSES

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| --- | --- |
| Principal & Interest | $1,432 |
| Property Tax | $395 |
| Homeowners Insurance | $85 |
| Private Mortgage Insurance (PMI) | $0 |
| Monthly Total | $1,912 |

**CREDIT CARDS/OTHER DEBT**

Brianna has The New Delta SkyMiles Platinum American Express credit card with a balance of $4,800 with an APR of of 17.5%. She has been paying the minimum monthly payment of $116 per month.

Brianna also has a Kohl’s credit card with a balance of $625 with an APR of 23.9%. She has been making the minimum monthly payment of $19 per month.

Brianna has an Ashley Advantage credit line she used to purchase furniture about 2 years ago. The APR on the debt is 29.99% and she has about 4 more years of payments left. She is paying $144 per month until the $4,000 left on the balance is paid off. She is getting the furniture and associated debt as part of the divorce agreement.

**TRANSPORTATION**

Brianna drives a 2019 Ford Explorer Limited. She purchased the vehicle about 1 year ago for $46,300 and financed the vehicle over seven years so she could afford the monthly payment. Her payment is $633 per month.

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| **INSURANCE** |

**LIFE**

Brianna has never had a life insurance policy on herself or her children. Her friends have advised her to get a life insurance policy, but she doesn’t know if she should get a whole life or term life policy. She needs a recommendation as to the type, death benefit she needs to ensure her children are supported if something were to happen to her, and how much this would cost her each month. She also isn’t sure about life insurance for her children.

**HEALTH**

Brianna gets health care coverage through her employer. Her employer just switched over to a high-deductible health plan with a $4,000 family deductible so Brianna doesn’t have a monthly premium payment. Brianna is wondering if there are any tax-advantaged programs available with her new health care plan.

Brianna also has group long-term disability insurance, which covers 75% of her salary.

**AUTO**

Brianna’s vehicle is fully insured. Her comprehensive deductible is $100 while her collision deductible is $250. Brianna pays a total premium of $700 every 6 months to insure her vehicle.

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| **INCOME TAX** |

Brianna is expecting a smaller tax return next year because of the divorce. Last year she received a refund of $6,000 from the federal government in late April 2020. She doesn’t really understand why they received such a large refund or what she should expect going forward. She needs advice in this area.

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| **OTHER THINGS TO KNOW** |

Brianna expects future court issues with her husband. The divorce has not gone smoothly and she feels she will continue to need a lawyer as disputes arise.

Since the kids are involved in after school activities Brianna finds herself eating out with them about 3 nights a week. The kids buy lunch at school most days and Brianna goes out during her lunch hour to grab food from local fast casual dining near her work.

Brianna enjoys watching TV and has the following streaming services: Disney+, Peacock, Discovery+, Paramount, Netflix, and Amazon Prime. She currently pays $175 per month for her cable and internet.

Brianna and the family have a Lifetime Fitness membership. She pays $141 per month so she and her two children have full access.

Brianna and Isabel have iPhone 11 Pro phones with unlimited data through Verizon. Brianna would like to get a phone for Brady soon since he will be at home alone at times once the divorce is final.

Brianna is willing to listen to any suggestions to cut her daily or monthly expenses she has.