MN Personal Finance Decathlon

SAMPLE CASE STUDY

Rules:

1. Your team is charged with providing financial recommendations to a fictional family, based on their current and future financial capability and needs.

2. You are provided with incomplete information about this family's financial situation. However, you are free to create additional information about the family as appropriate.

3. In arriving at your recommendations, consider creating a budget for the family, projecting the family's future financial needs and capability, and conducting other analyses that provide insight into the financial health and potential of the family.

4. To the extent relevant, you will present your recommendations in the following five areas:
   - spending
   - savings
   - debt management
   - insurance
   - taxes

5. You are allowed to find outside resources on the Internet. However, you are not to consult with any outside person. Your teacher may not assist you in any manner.

6. You will create a presentation (PowerPoint or other) as a team and present it to a panel of judges. The presentation must be at least **five** minutes in length, but not over **eight** minutes. Each member of your team should participate equally in the presentation.

SAMPLE FAMILY FINANCIAL PROFILE

The following narrative describes some of the details about the fictitious Gonzalez family, a couple with two children.

FAMILY MEMBERS

Name (age)		Employment	Gross Salary
Hector Gonzalez	(33)	Dental Hygienist, DH Associates	$49,000
Jessica Gonzalez	(35)	HR Manager, OM Inc.	$65,000
Victor Gonzalez	(10)	Starting 5th grade this fall	
Isabel Gonzalez	(7)	Starting 2nd grade this fall	

Hector and Jessica work full-time, as a dental hygienist and an HR manager, respectively. Their ages and gross annual incomes are reported in the above table. Their son, Victor, will start 5th grade this fall, while the daughter, Isabel, will start 2nd grade. Both children attend an after school program during the school year and a summer program when the school is not in session.

TAXES

About 33% of their combined gross income is withheld for the purposes of federal and state income taxes, and FICA taxes. (Note that for the purpose of this case study the 33% withheld does not include any pre-tax deductions for health insurance and employer-sponsored retirement plans.) In allocating their after-tax income into spending, saving and sharing, Hector and Jessica have the following four prime objectives in mind.

GOALS

(1) **Budget:** They understand the importance of living within their means. Unless there are good reasons for doing so, they would like to be as debt free as possible.

(2) **Reserve:** They understand the importance of saving for raining days. Ideally, they would like to build an emergency fund enough to cover 6 months of their after-tax expenditures.

(3) **Education:** They understand the importance of making college education affordable to their children. Ideally, they would like to help their children with the “tuition and fees” portion of the cost of attending a four-year public university in Minnesota.

(4) **Retirement:** They understand the importance of saving for their retirement. Social Security benefits aside, they would like their pensions to provide at least 70% of their pre-retirement income. They both plan to retire when they turn 66.

SAVINGS

- **Savings Account:** Hector and Jessica had more or less drained their joint savings account seven years ago when they were required to come up with a 10% down payment for their new home. To rebuild this emergency fund, the couple have resolved to inject $200 each month onto the account. It hasn't been easy! Specifically, while they have managed to raise the account balance to its current level of $12,000, they have increasingly found themselves taping into this savings for imbalances between cash inflows and outflows.

- **Checking Account:** The couple directly deposit their paychecks to their joint checking account, from which they pay their monthly expenses. They have managed to carry a $3,000 cash cushion in this account and would like to maintain that cushion for the foreseeable future.

- **Retirement Fund:** Jessica has an optional employer sponsored retirement plan in which she can contribute up to 10% of her gross income, with her employer matching $0.50 for each dollar contributed. For the past four years, Jessica has elected to max out her contribution (10%). Currently, the account balance is about $32,500. Through his company, Hector has an option for a 401K, which has a $0.50 on the dollar match for the first 6%. However, he has not yet elected to participate; nor has he chosen to put money in an individual retirement account, such as Roth IRA.

- **Education Fund:** Since each child was born, they have saved $100 per month per child towards college and deposit it annually into a MN 529 plan. They now have $15,500 saved for Victor's college education and $10,000 saved for Isabel.

DEBT

- **Mortgage:** Hector and Jessica bought their first house seven years ago for $200,000. After the down payment, they obtained a 30-year mortgage of $180,000 at 5% interest rate. The house is now worth $215,000 and the mortgage has a balance of $158,300. Hector and Jessica have no immediate plan to move. Their monthly housing expenses include:

Principal and Interest:	$966
Homeowners Insurance:	$100
Property Tax Escrow:	$208

- **Car Loan:** The Gonzales family has two cars. Car #1 is paid off, but needs to be replaced in two years. Car #2 still entails a monthly payment of $275 for the next three years. The interest rate on the car loan is 4.5% and the current loan balance is $9,200.

- **Student Loan:** Jessica still has a student loan debt of about $20,400, for which she pays $225 a month. The interest rate is 5.84% and she has 120 monthly payments remaining. Hector attended a two-year college and does not have student loan debt.

- **Credit Card Debt:** Both Hector and Jessica have no credit card debt, though they use their credit cards frequently for purchases. While they pay off the balance with each billing cycle, they have increasingly found themselves tapping into their savings to help pay for the bills.

OTHER MAJOR EXPENSES

- **Health Insurance:** In addition to their homeowners and auto insurance, the Gonzalez family has dental and medical insurance through Jessica's employer. The monthly expense is $405, plus copays. The out-of-pocket medical, dental, and prescription drug expenses sum up to about $1,200 per year.

- **Life & Long-term Disability Insurance:** Jessica has a $65,000 (1x of her salary) term life policy provided by her employer. Hector does not have life insurance. They don't have any long-term disability and long-term care insurance.

- **Transportation:** Each month, the Gonzalez family spends about $160 on car insurance and $300 on gas. Additionally, both Jessica and Hector pay $60 a month for parking. While not feasible for Hector, taking the light rail to work is not a terribly inconvenient option for Jessica.

- **Food:** Each month, they spend $600 on food at home and $300 on food away-from-home. Particularly, they enjoy having sushi and Udon noodles at Tanpopo, a small Japanese restaurant in their neighborhood.

- **Utilities:** Each month, they spend $250 on utilities, $200 on a family cell plan, and $160 for Internet, cable, and home landline services.

- **Child Care and Education:** Expenses for after school program is $1700 per child for the school year and $2,400 per child for summer programming. Additionally, the family spends $100 per month for miscellaneous school and education related expenses.

- **Entertainment:** Excluding vacations, the family spends $150 per month on entertainment.

- **Charity:** Giving to charities/organizations is important to them. However, the couple have increasingly found this unaffordable. For example, the couple incurred a budget deficit of about $3,700 last year (after paying for all the expenses and putting aside all the planned savings).

- **Tax Return**: Each year the couple file their income taxes jointly, itemizing such deductions as mortgage interest and property taxes. Last year, their federal and state refunds totaled 2,800, which was $900 shy of the budget deficit they incurred that year.

OTHER THINGS TO CONSIDER

(1) The roof of their house needs to be replaced in three years. They estimate the cost to replace the roof at $9,500.

(2) The family has relatives in California and would like to visit them within the year. They'll be able to stay with family, but they are expecting to spend $2,500 on airfare, car rental, meals, and miscellaneous expenses.

SOME QUESTIONS TO PONDER

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

1. What can they do to better manage their spending, if any?
2. What can they do to better manage their debts, if any?
3. What can they do to better address their goal of saving for raining days, if any?
4. What can they do to better address their goal of saving for their children's college education, if any?
5. What can they do to better address their retirement needs, if any?
6. Are there any changes needed to their insurance (homeowners, automobile, health, life, long-term disability, etc.)?
7. What can they do to more efficiently handle their taxes, if any?

JUDGING RUBRIC

Judging Criteria	**Points**
Knowledge of Personal Finance Issues Displayed in the Presentation	50%
Relevancy and Comprehensiveness of the Recommendations	30%
Teamwork Displayed in the Presentation	10%
Presentation & Communication Skills	10%