

FINC 209 PERSONAL FINANCE CASE STUDY

Overview

This case study requires you to apply the concepts learned in FINC 209 Personal Finance course. The course has equipped you with basic personal finance skills. For this project, you must analyze the given information in the case, gather relevant information from various primary and secondary sources (In some cases other than the textbook) and use your acquired skills in making optimal decisions.

Goals

Help Michael and Mary Gordon achieve their personal and financial goals by helping them with their objectives in credit management, home purchase, insurance analysis, retirement planning and investment planning.

Deliverables

A report with answers to the questions. Maximum 5-6 pages. I am not looking for prose!

DUE DATE: December 17th, 2021; 11.59PM

Guidelines

1. **Keep the answers concise** but address all questions thoroughly. **Show your calculations** for the questions with numbers.
2. Facts must be correct, and opinions must be well supported.
3. Please list the source of your information where relevant.
4. Creativity in solving problems in the case will be given extra points. However, solutions must adhere to facts ie fabrication will hurt your score.
5. All 6 sections carry equal points.

Michael and Mary Gordon Family

Michael and Mary Gordon are developing a financial plan to accomplish their goals and objectives. They have great aspirations for the future, however, are concerned about their current financial situation. Assume today's date is January 1, 2019

Personal Background and Information

Michael Gordon (Age 32): Michael is a Vice President of business development at Cornerstone, LLC, a company that helps firms with their digital presence. He has been employed there since its founding, 8 years ago. The company faces heavy competition and its profitability has been erratic. His job however, is fairly secure. His annual salary is \$85,000. He is entitled to a performance bonus of 20-30% of his salary. Owing to industry conditions and poor company profitability, no bonus was paid for the last two years. He is in good health with no history of illness and has never smoked.

Mary Gordon (Age 30): Up until Sam was born, Mary was a web designer at a digital design company. She is uncertain when she will return to work. She is in good health with no history of illness and has never smoked.

The Gordons: Michael and Mary have been married for 7 years. They have two children, Max and Sam. Michael's mother, Carol lives with the Gordons. They have a no criminal record and have a clean financial history.

Family

- Max is 6 years old and is in 1st grade. He goes to a public school near where the Gordons live. He has shown a strong interest in music and his parents are considering enrolling him for music lessons.
- Sam is 4 years old. She attends pre-school.
- Carol, 68 years, is Michael's mother. She had a heart attack two years ago and has been living with the Gordons since she left the hospital. She is retired and uses income from her investments and social security income to meet her living expenses. She did not qualify as a dependent of the Gordons (For Tax purposes) in 2018. She is concerned that her investments may not perform well in the future and Michael and Mary may have to provide financial support.
- John and Jessica Paulson are Mary's parents. They are in good health and have offered to help pay for Max and Sam's tuition through the eighth grade, if required. They are retired, financially secure and travel often. Mary is their only child.

Other Financial Details

- Michael and Mary have FICO Scores of 710 each.
- They expect their investment portfolio to earn 8% over the long term
- They file their taxes 'Married Filing Jointly'. They take the standard deduction and have child tax credit for each of their two children.
- Michael has a 401 (K) plan at work. His company matches his contributions up to 3% of his salary.

STATEMENT OF CASH FLOW (2019 Expected)				
Michael's Salary		\$85,000		
Investment Income				
Interest		\$500		
Other Income		\$600		
Total Investment Income		\$1,100		
TOTAL INCOME		\$86,100	1	
Pre Tax Contributions				
401(K) Contributions		\$4,800		
Health insurance premiums		\$1,200		
TOTAL PRE-TAX REDUCTIONS		\$6,000	2	
Taxes*				
Federal		\$7,025		
State		\$1,250		
TOTAL TAXES		\$8,275	3	
Living Expenses				
Rent		24000		
Food & Outside Meals		12500		
Clothing		4500		
Child Care		2500		
Entertainment & Travel		7650		
Utilities & Phone		3600		
Auto Maintenance		1500		
Church Contributions		500		
TOTAL LIVING EXPENSES		56750	4	
TUITION & EDUCATION		12500	5	
Other payments				
Car Payment		3400		
Car Insurance		1000		
Credit Card Payment		600		
Student Loan Payment		2400		
		7400	6	
TOTAL OUTFLOW		\$90,925	2+3+4+5+6	(7)
NET CASH FLOW		(\$4,825)	1-7	
*Michael takes the standard deduction, and child tax credit for his two children				

STATEMENT OF FINANCIAL POSITION (Jan 1, 2019)	
ASSETS	
Joint Checking account	\$1,500
Joint Savings account	\$1,000
TOTAL LIQUID ASSETS	\$2,500
Section 401 (K) Vested Plan*	\$43,000
Certificates of deposits (CDs)**	\$25,000
TOTAL INVESTMENTS	\$68,000
Automobile	\$15,000
Jewelry	\$13,500
Furniture/Household	\$60,000
OTHER PERSONAL ASSETS	\$88,500
TOTAL ASSETS	\$159,000
LIABILITIES & NET WORTH	
Credit Cards***	\$5,000
Car Loan	\$9,000
Student Loan	\$35,000
TOTAL LIABILITIES	\$49,000
GORDON FAMILY NETWORTH	\$110,000
TOTAL LIABILITIES & NET WORTH	\$159,000

* Michael's 401 (K) is 100% invested in the stock of his company, Cornerstone, LLC.

**CDs are earning 2% per year and will mature in 6 months. They will lose interest earned if they redeem early

***Credit Card 1: APR: 28%. Credit Limit \$3000. Balance Outstanding: \$1000.

Credit Card 2: APR 22%. Credit Limit \$4000: Balance Outstanding: \$4000

OBJECTIVES AND QUESTIONS

I. Credit

- a) Calculate the following ratios **and** state (Yes or No) if they are within prescribed limits using **Exhibit 2-6** and **Exhibit 7-6** in your book and : 1) Housing costs as a % of gross income 2) Total Debt service as a % of gross income (Use rent payments for housing cost) 3) Food as a % of after tax income 4) Entertainment as a % of after tax income 5) Clothing as a % of after tax income
- b) Suggest expenditures they can reduce and by how much so that their cash flow statement has a surplus.
- c) What is their credit utilization ratio on their credit card? Is it hurting or helping their credit score? Suggest **2 things** they can they do to improve their credit score (Hint: Please see all the factors that affect FICO score from the textbook- Page 156, Chapter 5)

II. Home Purchase

- a) The Gordon's are considering buying a house in New Jersey. Analyze their current financial situation and discuss what is the maximum amount of monthly mortgage payment they can afford. Based on your answer, what is the maximum value (Approximate) of the property they should consider? Assume that the monthly cost of property taxes and insurance is \$300. Assume they take a 30 year loan which costs 3.5%. (See the example in your book in Chapter 7. Exhibit 7-6 AND/OR my video on this topic)
- b) The Gordon's decide to finance their home purchase through a 30-year fixed rate mortgage because the monthly payment will be lower and they will not have any uncertainty because interest rate will be fixed. What interest rate can they expect on this mortgage? Use one of the website below or any publicly available source to answer this question.
- c) How much down payment would you suggest they make? Offer them suggestions on how to come up with the down payment, based on the facts of the case or other resources they may have.
- d) List 3 closing costs they can expect to pay for the home purchase. (Hint: It is in Chapter 7.)

Suggested sources of information

LendingTree: <https://www.lendingtree.com/>

Zillow.com: <https://www.zillow.com/>

III. Insurance

- a) Do you think Michael should purchase life insurance? Why? Be brief!
- b) Calculate how much life insurance you suggest Michael should buy. (Use one of the methods listed in Chapter 10.) Whose life should be insured and who should be the beneficiary?
- c) Pick a **term life** insurance (Number of years and any one insurance company such as Geico, Met Life, State Farm, etc). What would be the monthly premium for this insurance? Use one of the website below to find what premium they can expect to pay. Would you recommend that they buy Whole life Insurance instead of Term life Insurance? Explain your answer.

- d) Michael has the Omnia Bronze medical insurance offered by Horizon Blue Cross Blue Shield of New Jersey. [Click here for explanation of benefits.](#) (This document is also available in FILES on Canvas) Based on the explanation of benefits help Michael and Mary understand the following situations.

- 1) What would be the cost of an annual routine physical?
- 2) Max fractured his wrist and had to be taken to the Emergency room. If the total bill for treatment was \$1500, how much would Michael have to pay from his pocket. Assume there were no other medical bills for the year.
- 3) For this question, assume this year the family has already paid for medical expense of \$14,300 (Not including premiums and penalties). Michael goes to a specialist and incurs \$1500 in doctors' fees. The doctor was listed as a Tier 2 provider. How much will the insurance cover?

Suggested sources of information for this topic (You are not limited to these sources)

GEICO get a quote: <https://www.geico.com/life-insurance/>

State Farm get a quote: <https://www.statefarm.com/insurance/quotes/life-quote>

MetLife get a quote: <https://www.metlife.com/insurance/life-insurance/rapid-term-life-insurance/#>

IV. Retirement

- a) Michael's company is expected to announce a policy, that in the future, it will match 50% of the contributions up to 8% of the salary. How much should Michael contribute to his retirement account to take full advantage of this policy and would you recommend that he do so?
- b) Assume the Gordon's average tax rate is 25% currently and for the future until retirement but is expected to be 15% after he retires. If Michael contributes \$1000 into his IRA today, how much in taxes will he save. If this contribution grows to \$10,000 after he retires, and he withdraws it all at once, how much in taxes will he have to pay?
- c) What is Michael's 401 (K) invested in (It is in the case, read it!)? Is it appropriately invested? State your reason.
- d) If Michael left his current job to start a new job, what can he do with his current 401 (K)? List any two good choices he has.

V. Investments

- a) Michael is analyzing a few mutual funds to add to his 401(K) portfolio. He would like your help in choosing one from the following funds:
 - 1) Parnassus Core Equity Investor (Ticker: PRBLX) or 2) Oakmark Fund (Ticker: OAKMX)
 - Using the websites given below, answer the following question for each fund

- 1) Names of the portfolio manager(s) 2) Last 5 year and 10 year performance for each fund compared to the S&P 500 (Benchmark)) 3) Expense ratio for each fund 4) Minimum investments needed 5) Morningstar rating for each fund
- b) Michael asks you, “Both the above mutual funds have fees, which I think are quite high. Are there any options for investing in US stocks if I want to avoid paying high fees?” Choose ONE low cost alternative to the above funds to invest in US stocks. State the name and the ticker of the low cost alternative.

Suggested sources of information (You are not limited to these sources)

1. Parnassus Investments: <https://www.parnassus.com/>
2. Oakmark Funds: <http://www.oakmark.com/oakmark.htm>
3. Morningstar: www.morningstar.com

VI. Financial Statements

- a) How would the Gordon’s balance sheet change if they purchase a home and finance it with a mortgage as per your recommendation? (Use the numbers from your recommendation in section II: Home Purchase.)
- b) How will the Gordon’s net worth change if they do the following (*Answer each separately and independent of the other*) 1) Save \$5,000 from their paycheck 2) Payoff a loan of \$4,000 3) Purchase a car for \$25,000 and finance it entirely with a car loan.

Hints:

- 1) Assets-Liability = Net worth
- 2) A surplus from your cash flow, if it is saved, goes into assets such as bank account or investment account.