

# Financial Planning Challenge 2014

## Phase 1: Written Financial Planning Case Study

The first phase of the competition consists of a financial planning case study for two hypothetical clients. Students must assess the client's needs and prepare a comprehensive financial plan for the clients based on the data provided. Teams must prepare a client welcome letter and a one page summary outline. Use of commercially available financial planning software is prohibited.

### Submission:

- Competing teams must submit their participation application no later than **April 1, 2014**.
- Student teams must submit their comprehensive financial plan and other required documents by **May 15, 2014** to Destre Downing, FPA, Learning and Development, at [DDowning@OneFPA.org](mailto:DDowning@OneFPA.org).
- Each team should submit their financial plan and other required documents as one (1) compiled document in PDF format with the school and team member names on the title page.

### The written plan should include the following:

Assess the clients' current financial condition.

Identify the major Strengths, Weaknesses, Opportunities, and Threats. (SWOT)

Identify and disclose specific assumptions used in analyzing each goal and need.

Discuss the resolution of any conflicts between the clients' goals and needs, and the ability to satisfy them due to financial or other constraints.

Identify the extent to which other professionals are required to implement any recommendations.

### Judging:

A panel of judges representing each presenting organization will review the submissions based on a standardized grading rubric to maintain consistency.

Each submission will be assigned a point value based on the quality of their submission. The phase 1 score has a weighted score of 30%.

### **PRESENTING ORGANIZATIONS:**

AMERIPRISE FINANCIAL, *FOUNDING CORPORATE PARTNER*

CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS, INC.

FINANCIAL PLANNING ASSOCIATION



# **CALVIN AND ELLEN SCANLON**

## **Investment Planning Case**

### **PERSONAL INFORMATION AND BACKGROUND**

Calvin and Ellen Scanlon have come to you to evaluate whether Ellen should accept a buyout currently being offered by her company. She is a copy editor at Teem Publications. Several years ago, Teem Publications merged with a high-flying tech company. The merger was disastrous and the company's stock has finally recovered to the levels it was 15 years ago. This latest round of buyout offers is to cut expenses to remain profitable and competitive. Ellen is very eager to accept the offer as morale at the company is extremely low. The lowest in the 20 years she has worked there.

She and Calvin have been married for 25 years. Ellen is 61 and Calvin is 58. She is often kidded about "robbing the cradle." Ellen is in excellent health. They have two children. Francine is 17 years old and a senior in high school. Seth is 14 and a freshman at the same high school that Francine attends. Both of the children are intelligent and outgoing. They plan on attending college upon completion of high school.

Calvin is a construction worker at a local company. He has been with the company for 10 years. Unfortunately, because of a slowdown in the housing market, he was recently laid off. Subsequently, he is expecting to have much less income next year. To exacerbate the situation, Calvin has a learning disability that scares away most employers. He is a slow learner and he can be socially awkward, especially when not with Ellen. His employer does not have a retirement plan.

### **GOALS AND OBJECTIVES**

Ellen is eager to accept the buyout offer and leave the company. It is a long commute for her and she would enjoy spending more time with the children and Calvin. Secretly, she is concerned about Calvin's ability to care for himself and the children should she die. She wants to make sure there are sufficient funds for the family without any income coming from Calvin.

Calvin and Ellen live modestly. They have no mortgage and the only debt they have is a current balance on their credit card of \$2,000 that will be paid off in full at the end of the month. Ellen uses the card for household expense to get the reward points. They feel that they can live comfortably on \$71,000 per year, after taxes. They want to plan on both living until age 90.

They also want to pay for their children's college education. They do not want their children to be saddled with debt when they leave school. They plan on funding four years of college. After that, the children will be responsible for any further education costs.

Eight years from now after Seth has completed college, they would love to take their dream vacation. When they married neither of them had much money and their honeymoon was lovely, but consisted of a weeks vacation in a friend's cabin situated in the Catskills. They would like to spend a month in the Caribbean. They figure the cost will be \$30,000 in today's dollars. They plan on investing \$30,000 in one of the proposed bonds to fund this goal.

### **BUYOUT INFORMATION**

If Ellen accepts the buyout, it will become effective one month from now. The company is offering 6 months of severance pay with full benefits. After that, there will be a lump-sum distribution of \$200,000 at the beginning of next year. In addition, the company will extend health insurance benefits until Ellen is eligible for Social Security, provided that Ellen assumes 50% of the cost.

## **EDUCATIONAL INFORMATION**

Both Francine and Seth intend on getting their degrees in four years. Ellen has already picked out her school. It is a private college relatively close to home. The current costs are estimated at \$32,000 per year. Education costs are expected to increase 5% per year. Seth has not yet picked a school. To keep harmony between the two siblings, they would like to use the same figure for both children when figuring out savings. Both children have 529 plans. Francine's account has a current value of \$50,000 and Seth's account balance is \$40,000. They are able to add \$25,000 annually to each fund. They would like to fund 4 years for each child.

## **INCOME TAX INFORMATION**

Calvin and Ellen are currently in the 33% and 6.85% marginal federal and state income tax brackets, respectively. They expect to be in the same bracket next year. After that, they expect their marginal federal rate to be 25% while their state rate will stay the same. Capital gains and qualified dividends will remain 15%.

## **ECONOMIC AND INVESTMENT INFORMATION**

Calvin and Ellen are conservative to moderate investors. They generally believe that the market prices already reflect available information, but have come to you feeling that you can help them achieve a higher return. Calvin is much more likely to take risk than Ellen. Ellen has been very afraid of the market ever since her company's stock plummeted during the tech crash and is extremely skeptical of predictions.

They have decided that when the 401(k) is rolled over under your management, that the funds will be liquidated and then directly transferred to an IRA. \$1 million will be placed into a laddered CD portfolio in \$100,000 increments, with one maturing every month. The rest of the invested assets will be invested in a moderate growth portfolio. The moderate growth portion's broad allocation is to be: 50% U.S. Stock; 20% International Stock; 30% Bonds. As the CDs mature, it will be decided whether to add back to the ladder or invest in securities. As Ellen contemplates an early retirement, she has been interested in dividend paying stock; both common and preferred. She is also interested in adding to their bond portfolio as existing bonds mature.

For the past 10 years, Ellen has received 2,000 non-qualified stock options and is fully vested in all of them. Unfortunately only 4,000 of them have any value. 2,000 of the options have an exercise price of \$40. The other 2,000 options have an exercise price of \$41. The current price of the stock is \$47.25. The options will have to be exercised within 30 days of the end of her severance pay.

Calvin and Ellen would like to purchase an S&P index fund. The S&P currently stands at 1150. Given Ellen's concern with the stock market, they would like to utilize options to minimize their risk on this purchase as they already own Company A's S&P fund which has currently declined in value. They are willing to investment more in S&P funds or similar stocks as they expect the S&P funds to rebound.

Calvin wants to add a second emerging market fund to his Roth IRA. You researched the different investment options and found one that is -0.7 correlated to the emerging markets fund he already owns.

Inflation is currently 4.4% and interest rates have been rising at a slow pace. The yield curve is starting to flatten out and the yield spread between Government and AAA corporate bonds is increasing. The 90-day T-Bill is currently yielding 3.2%; CDs range from 3.3% - 3.86% depending on their maturity 1 – 5 years. Over the past 10 years the S&P has had an average return of 8.54% and has a sample standard deviation of 10.94. Ellen and Calvin are optimistically hoping for a 7.25% return.

## **RETIREMENT INFORMATION**

Ellen hopes to find some freelance work after leaving Teem Publications. She is hoping to make \$30,000 per year until Seth leaves college. Calvin is planning on becoming a handyman as he was before his job with the construction company. He feels that he can make \$25,000 per year for the same time frame as Ellen. If Ellen delays taking her Social Security benefits until her FRA, her benefits will be \$24,960 per year. If Calvin waits until his FRA, his benefits will be \$12,480. They have considered taking benefits earlier if necessary.

## **INSURANCE INFORMATION**

Ellen and Calvin have an HO 8 policy with \$120,000 of coverage. The only rider they have is for full replacement cost of damaged property.

Their auto insurance is a comprehensive policy for the Honda Accord and liability only for the pickup truck with 100,000/300,000/50,000.

Ellen has a \$200,000 term life insurance policy through her workplace with Calvin as beneficiary. Calvin has no life insurance.

The family's health insurance coverage comes through Ellen's employer. It is a combination HMO/POS plan. The HMO has a \$25 doctor co-pay and \$100 emergency room/hospital co-pay. The POS has a \$2,000 individual/\$5,000 family deductible; 70/30 co-pay with a \$10,000 stop loss limit and unlimited life benefits.

## **ESTATE INFORMATION**

Calvin and Ellen each have simple wills, leaving everything to the surviving spouse.

**Statement of Financial position**  
**Calvin and Ellen Scanlon**  
As of December 31<sup>st</sup> Last Year

**ASSETS**

Cash and Cash Equivalents		
Checking Account: JTWROS	\$	20,000
Savings Account: JTWROS	\$	<u>50,000</u>
Total Cash and Cash Equivalents	\$	70,000

Invested Assets		
Traditional IRA: H <sup>1</sup>	\$	8,000
Roth IRA: W <sup>2</sup>	\$	12,000
Roth IRA: H <sup>3</sup>	\$	18,000
401(k): W <sup>4</sup>	\$	1,200,000
Brokerage Account: JTWROS	\$	180,000
Brokerage Account: H <sup>5</sup>	\$	60,000
529: JTWROS <sup>6</sup>	\$	40,000
529: JTWROS <sup>7</sup>	\$	<u>50,000</u>
Total Invested Assets	\$	1,568,000

Personal Use Assets		
Personal Residence: JTWROS <sup>8</sup>	\$	200,000
Honda Accord: W	\$	12,000
Ford Pickup: H	\$	5,000
Furniture and household items: JTWROS	\$	<u>35,000</u>
Total Personal Use Assets	\$	252,000

**Total Assets** **\$1,890,000**

**LIABILITIES AND NET WORTH**

Liabilities		
Credit Card Debt: W	\$	2,000

**Total Liabilities** **\$ 2,000**

**Net Worth** **\$1,888,000**

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<sup>1</sup> Ellen is Beneficiary  
<sup>2</sup> Calvin is Beneficiary  
<sup>3</sup> Ellen is Beneficiary  
<sup>4</sup> Calvin is Beneficiary  
<sup>5</sup> Held TOD to Ellen  
<sup>6</sup> Seth is Beneficiary  
<sup>7</sup> Francine is Beneficiary  
<sup>8</sup> Land Valued at \$50,000

## ADDITIONAL INVESTMENT INFORMATION

### Emerging Markets Funds

	Year 1	Year 2	Year 3	Year 4	Year 5
Fund A	13.17	35.74	42.32	43.25	-8.96
Fund B	26.12	32.05	29.47	39.09	-2.88
Fund C	27.04	37.98	31.99	43.40	-5.69
Fund D	19.40	37.76	35.16	41.97	-8.33
Index	25.55	34.00	32.17	39.39	-2.62

MSCI EM index

### Current Bond Portfolio

Description	FMV	Price	Maturity	Coupon	Duration
A-SB CORP	21,515	1,075.78	6	7	5.04
US T-NOTE	21,313	1,065.65	4	6	3.627
AA JWT CORP	9,850	984.92	2	4	1.939
AA DKS CORP	20,607	1,030.35	3	6	2.791
NY MUNI GO	15,692	1,046.11	5	4	4.59
EE Savings*	16,327		5	0	

\*Purchased 15 years ago

### Proposed Bonds

Description	Price	Maturity	Coupon	YTM
BBB DKL CORP	916.74	7	5	6.5
AAA JCK CORP	1,040.10	8	5	4.4
A+ MGC CORP	1,116.59	8	7	5.2
US STRIP	694.01	9	0	4.1
AA HKN CORP	1,021.81	9	5	4.7
US STRIP	653.48	10	0	4.3

### Dividend Paying Common Stock

Description	Current Price	Dividend	Growth	Return
Common A	\$61.50	\$3.50	3	9
Common B	\$56.00	\$2.15	4	8
Common C	\$64.40	\$2.50	3	7
Common D	\$62.50	\$3.25	2	7

### Preferred Stock

Description	Price	Par	Dividend	
Preferred A	\$27.50	\$25	4%	Cumulative
Preferred B	\$49.50	\$50	4%	Cumulative
Preferred C	\$29.50	\$25	6%	Non-cumulative
Preferred D	\$87.50	\$100	3%	Non-cumulative

**College Funds**

	<b>5 Year Avg.</b>	<b>Standard Deviation</b>
Fund A	5.85%	7.25%
Fund B	4.25%	4.9%
Fund C	6.75%	7.8%
Fund D	4.85%	5.4%