

Financial Planning Challenge 2015

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:

- Student teams must submit their comprehensive financial plan and other required documents by **May 15, 2015** to Destre Downing, FPA, Learning and Development, at 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.
- **Important:** Please do not include your school's name or team member names on any pages other than your 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



Mark and Callie Collins

PERSONAL INFORMATION AND BACKGROUND

Mark and Callie Collins have come to you for help regarding their current financial situation as well as guidance understanding what they need to do for their longer term goal of retirement. Mark (age 37) is currently a freelance art director having been recently laid off from the advertising and marketing firm he and Callie moved to California from North Carolina to work for. Callie (age 36), who works in the same industry, is a copywriter. She is the owner and sole employee of "Callie's Calling Cards Inc." (S Corp). They have two children of their own and a large extended family with many nieces and nephews who they are very close to.

PRIMARY GOALS AND OBJECTIVES

Mark – Being an Employee vs Self-employed

Mark initiated the contact with you around the primary question of whether he should continue with his work in a freelance capacity or consider aggressively seeking new employment with another advertising firm. Mark thinks he can generate an income of \$175,000/yr own his own or for a firm, but recognizes that the health and retirement benefits he would likely receive from a company have value that he would have to replace himself. They would specifically like to know the financial pros and cons of each option along with an understanding of where they stand regarding their goal of retiring at 60. He and Callie have discussed working together as partners in "Callie's Calling Cards", but would like to know more about the financial implications of that decision.

Callie – Help with Business Cash Flow

Callie's business (CCC) is successful and thriving, however, despite working with an accountant since establishing her S Corp, she feels she may be under-utilizing the structure of her business for her and Mark's benefit. She currently pays herself a modest salary of \$ 50,000/yr and \$ 10,000 annual distribution out of the average revenues of the business of \$100,000/year. Because of this, the business has accumulated a much larger sum of cash than is needed for the business, which is not capital intensive. The only real business expenses beyond her wages are travel and entertainment, and periodic laptop and printer replacement that averaged together, generally don't exceed 15% of revenues.

Mark and Callie – Owning vs Renting

Mark and Callie own a home in North Carolina which they renovated several years ago and currently rent out for just slightly more than their mortgage payment. They rent an apartment in the Bay Area of California which they love but would like to have some guidance on whether they should sell the home in North Carolina and consider buying in California.

OTHER GOALS

Children's Education

Mark and Callie have two children, Kole (age 7) and Kelly (age 4). They would like to fund half of the cost of their kid's college education expenses as they believe it is important for their children to be "invested" in their own education. They would like to know how much they should save to provide for public college expenses (in California) and the best way to achieve that goal.

Mark – Caring for an Aging Parent

Unfortunately, Mark lost his father a year ago and his mother (age 63), currently living alone in Texas, is beginning to show signs of a diminishing capacity to care for herself. Though he doesn't expect that his mother will need assistance in the next 5 years, he'd like to develop a strategy for his sister and him to take care of her when she does need help.

RETIREMENT INFORMATION

Mark and Callie consider themselves to have a moderate risk tolerance, however they are not very experienced in managing their investments. Mark admits that, after a significant decrease in his 401(k) balance during the last market downturn, he moved his entire account into the stable value fund and hasn't touched it since.

Mark and Callie are both familiar with IRA's and 401(k). They both participated in the 401(k) plans offered by their previous employers, but in the past year they have not contributed to any retirement account. They both also have made small contributions to Roth IRAs in the past. They would both like to retire by age 60.

INSURANCE INFORMATION

Mark and Callie have an HO 3 policy with \$285,000 of coverage with and additional \$100,000 for personal property. Their auto insurance policies for the Honda Element and Toyota Tundra are comprehensive with liability limits of 100,000/300,000/100,000.

Since Mark was laid off they have not had life or disability coverage for either of them.

They pay for health insurance on their own now, which costs them \$17,500 annually. The plan has deductibles of \$1500/individual and \$5000/family.

INCOME TAX INFORMATION

Mark and Callie are currently in the 33% marginal federal, and 10.3% state income tax brackets. Additionally, California has a 1.5% S Corp rate. Capital gains and qualified dividends will remain 15%. Their effective federal tax rate last year was 20%.

ESTATE INFORMATION

Mark and Callie have simple "I Love You" wills that they did soon after they purchased their North Carolina home 7yrs ago.

ECONOMIC INFORMATION

Currently, inflation stands at 3.5% and the market, after a 5 year run is starting to show signs of weakness. Concern with potentially rising interest rates and dropping oil prices have contributed to the uncertainty experts have about which direction the market may move in the near term.

Statement of Financial position
Mark and Callie Collins
(As of December 31st Last Year)

ASSETS

Checking Account: JTWROS	\$ 25,000
Savings Account: JTWROS	\$ 32,000
“Callie’s Calling Cards”	
Checking Account:	\$ 173,000 (retained earnings)
Total Cash and Cash Equivalents	\$ 230,000
Rollover IRA: Callie ¹	\$ 18,000
Roth IRA: Callie ²	\$ 7,500
Roth IRA: Mark ³	\$ 11,000
Crafty Slogans Inc. 401(k): Mark ⁴	\$ 375,000
Silly Rabbit Logos Inc. 401(k): Mark ⁵	\$ 31,000
Brokerage Account: JTWROS	\$ 24,000
Total Invested Assets	\$ 435,500
Personal Residence: JTWROS ⁶	\$ 350,000
Honda Element: Callie	\$ 18,000
Toyota Tundra: Mark	\$ 25,000
Furniture and household items: JTWROS	\$ 35,000
Total Personal Use Assets	\$ 428,000
Total Assets	\$ 894,500

LIABILITIES

Mortgage: Joint		
Original loan amount	\$ 318,000 @ 4.5%	
Monthly PI	\$ 1,611	
Monthly PITI	\$ 2,152	
Remaining Balance	\$ 276,743	
(end of year 7)		
Auto Loan: Callie	\$ 8,000	
Auto Loan: Mark	\$ 12,000	
Credit Card Debt: Mark	\$ 2,700	
Total Liabilities		\$ 299,443
Net Worth		\$ 595,057

¹ Mark is Beneficiary

² Mark is Beneficiary

³ Callie is Beneficiary

⁴ Mark’s Father Ron is Beneficiary

⁵ Mark’s Father Ron is Beneficiary

⁶ Personal Estimate from Mark

Statement of Cash Flows
Mark and Callie Collins
(As of December 31st Last Year)

Income

Mark \$ 175,000
Callie \$ 100,000
Rental \$ 2,400

Taxes, Expenses and Savings

Taxes – Federal \$ 55,480
Taxes – State \$ 24,735
Taxes – S Corp \$ 1,500

Total - Taxes \$ 81,715

Business \$ 13,570
Mortgage (PITI) \$ 25,824
Auto Loans \$ 9,540
Insurance – Medical \$ 17,500
Insurance – Auto \$ 2,100
Utilities \$ 11,210
Food – Groceries \$ 9,300
Medical \$ 2,750
Food – Restaurants \$ 13,461
Clothing \$ 4,800
Entertainment \$ 4,700
Hobbies \$ 3,600
Travel \$ 14,500
Gifts \$ 5,000
Misc - Lifestyle \$ 6,300

Total - Expenses \$ 140,484

Savings

Undistributed S Corp
Earnings \$ 26,430
Personal Savings \$ 25,100

Total - Savings \$ 51,530

Total - Income \$ 277,400

**Total - Taxes, Expenses,
Savings \$ 277,400**