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Wealth Management from a Biblical World View since 1978

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Sample Case Study

The following is a teaching tool designed to have individuals find solutions common to many families.

They may recognize some of the problems in their own financial planning as they attempt to assist others. This teaching tool is usually presented in a group setting where many can offer suggestions to “fix the problem” shown.

Before finding a fix or solution we need to establish goals or targets for the family. We ask probing questions to get group participation.

Next we like to provide an Action List or a To Do List for each family. Here we give specific instruction how the family can make meaningful changes and vastly improve their financial position.

Finally we see the problem resolved. In all financial counseling both husband and wife must be involved otherwise it will be of little value. This last page is encouraging as it brings unity and a purpose to work as one in Christ.

This case study is hypothetical and is specific to the family represented. Your personal situation and results will vary so be sure to seek out professional advice. Don't ever give up. Remember, you never fail until you quit trying.



How do we FIX this problem?

Bill and Mary Smith
mid 40s with three children (ages:12, 15, 17)

Bill – advertising manager
Mary – part-time at Christian bookstore

Legal docs: NONE

Tax return:

Adj. Gross Income: \$60,300 annually
 - \$ 7,612 Federal & State taxes withheld
 - \$ 2,412 in 401(k) deductions (4% of each paycheck)
\$50,276 net or \$4,189 per month or \$1,934 per pay (every two weeks)

Regular Tax refund: \$ 2,312 per year

Giving: \$50 per pay / \$100 per month / \$1,200 per year

Savings account: \$750

Checking account: \$500 +/-

IRAs: NONE

401(k): \$65,750 + 4% contribution (\$92.77/pay) with 50% matching (up to 6% of pay)

Life Insurance:

\$ 50,000 Group term policy w/ employer

\$100,000 Universal life policy on husband paying \$ 772 a year. Cash value \$8,200

House: Bought 17 yr. ago for \$160K w/ \$130K thirty yr. mortgage @ 5.50%. Current value \$175K

Debts:

	<u>Monthly payment</u>	APR	
\$77,683 mortgage balance	\$ 738	5.50%	(13 years left)
\$15,000 home equity loan	\$ 244	8.15%	(7 years left)
\$17,000 car loan	\$ 408	12.25%	(41 mo left)
\$ 3,400 car loan	\$ 220	10.00%	(10 mo left)
\$ 6,000 VISA	\$ 180	17.00%	
\$ 1,200 Master Card	\$ 90	22.50%	
\$ 1,200 Boscovs	\$ 30	21.50%	
\$ 310 Sears	\$ 15	23.00%	
	<u>\$1,925</u>		

Reoccurring Expenses:

	<u>Average Monthly</u>	
Food:	\$ 996	(\$230 / week x 4.33)
Electric:	\$ 185	
Phone:	\$ 72	
Heating (oil)	\$ 75	(annual = \$900.00+/-)
Real Estate/School Taxes	\$ 375	(annual = \$4,500)
Cell Phones:	\$ 93	
Cable TV:	\$ 65	
Car Gas:	\$ 324	(\$75 week x 4.33)
Car & Home Owners Insurance:	\$ 196	(annual = \$2,350)
Life Ins:	\$ 64	(annual= \$ 772)
Gifts:	\$??	(Birthday and Christmas – amount unknown)
Eating Out:	\$ 281	(\$65 / week x 4.33)
Saving:	\$ 0	(we try to save what's left over)
Tithe:	\$ 100	
Misc:	<u>\$ 250</u>	(clothing, repairs, license, inspection, medical/dental, kids, etc)

\$5,001 total monthly out flow

< \$812 per month deficit spending put on credit card each month >



What Problem?





GOAL SETTING IS NEEDED

How much should they give? _____ Where should they give? _____

How much should they save: **Short-term?** _____ **Long-term 401(k)?** _____

What should be the order of their priorities? 1,2,3,4

Spending?

Giving?

Saving?

Get out of Debt?

Why is savings important? _____



Are their priorities out of alignment? _____

What can they do to make their budget work and stop going into debt? _____

Where are they spending money they can't afford? _____

How can they save more each month? _____

Should they use Coupons and Comparison Shop? _____ How about Cable, Insurance, etc?

Should they limit what they spend each year for Gifts like Christmas and Birthdays? _____

How about for those with Grandchildren? Is your gift an entitlement? Do they expect it every year?

What can this family do about upcoming College and Weddings? _____

Should they plan for vacations? _____

They want to buy a Time-Share vacation property. How can they do it? _____

What do they need for life insurance?

How much on him? _____

On her? _____

On the kids? _____

Is there anything wrong with their tax refund? _____

How many credit cards should they carry? _____ Which ones? _____

Should they take a personal allowance? _____ Why? _____

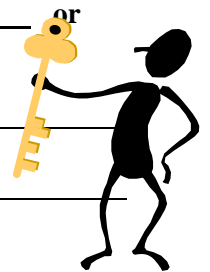
With any pay raise or other cash windfall should they **increase the 401(k)** _____,

pay down his mortgage debt _____, **pay down his credit card debt,** _____ **or**

build up short-term savings? _____?

WHY? _____

What do you expect will be the end result of these adjustments? _____



Here's the Key - Develop and Maintain Priorities!

Give, Save, Spend, Look for the Needs of Others and then enjoy the Pleasures of Life



My Action List:

1. **Write a Christian Will, a Power of Attorney and Advanced Directive (Living Will).**
Things to include in the will:
My testimony and a challenge to my children
Charitable giving clause – 10% or more to ministry (missions and education?)
Minor's trust with assets given out at varying ages: 21, 25 and 27
What type of college? How much will we pay: 50%, 75% or all of it?
Make sure the will contains a Self-Proving Affidavit and is notarized.

2. **Check Moms will to see that it's notarized. Does she have a POA with HIPAA?**

3. **Income taxes:** Increase exemptions by 4 giving you more cash to invest into your 401(k). Take advantage of the free money from employer. Minimize the tax refunds!

4. **Set up a Credit Union Savings account or use ING Direct.com to replace bank savings.** Have the bank automatically transfer **\$300** into the account **each month**.

Determine what bills come due two, three or four times a year. Add them up and divide by twelve months. Take this figure and have it also direct deposited into our new savings acct.

Real Estate/School Taxes	\$4,500 divided by 12 =	\$375 monthly
Car & HO insurance	\$2,350 divided by 12 =	\$196 monthly
Heating oil	\$ 900 divided by 12 =	\$ 75 monthly
Life insurance	\$ 480 divided by 12 =	\$ 40 monthly
Christmas & gifts	\$ 780 divided by 12 =	\$ 65 monthly
Total amount to save each month for reoccurring expenses =		\$751.00

5. **Life insurance – I'm under insured.**

Income needed =	\$40,000 (surviving spouse)	
Social security =	<u>\$16,800</u> stops when children turn 18, nothing for spouse until age 60	
Actual needed =	\$23,300 divided by <u>5%</u>	= \$466,000
Less group term insurance	-	\$ 50,000
Total needed to replace income until investments have grown		\$416,000

Note: when children turn age 18 Mom could work part-time to make up the loss of social security income. New term insurance policy – \$416,000 policy for a twenty year period = \$40 mo. (This saves \$24 a month for insurance on wife and kids or to save and invest)

6. **Existing life insurance – cash it in. Use money - \$8,200 to pay off credit cards.**
Use \$510 from savings to pay off balance: \$8,710 - \$8,200 cash value

7. **Credit cards: carry only one card (VISA) and destroy the rest!** Don't carry a balance! The only way to avoid future Credit Card debt is to save now.

8. **Mortgage:** Refinance, add in the home equity loan and two car loans. \$77,683 + \$15K + \$17K + 3.4K = \$113,000. Interest rate 3.57% Monthly payment: \$812.00

9. **Adjust spending and develop priorities! Necessities ahead of luxuries.**

Give, then "SAVE" before I spend! Then give sacrificially and buy my toys. Teach the kids!!!
Use a Roth IRA. (IRA = a bumper sticker, any type of investment or account can be labeled IRA).

Grocery bill is too high! Should be less than \$200 a week. Make a weekly menu and shop to fill it rather than the pantry. Use cash if needed. Also take a personal allowance to limit the mad money we blow. Manage the little before we manage the big. Cell phone, cable TV, and eating out are Luxuries not necessities!

10. **Increase giving and move to top as a priority.**

The problem is resolved!



Bill and Mary Smith
mid 40s with three children (ages:12, 15, 17)

Bill – advertising manager
Mary – part-time at Christian bookstore

New legal docs: Christian’s Will and Power of Attorney documents

Tax return:

Adj. Gross Income: \$60,300 annually
 - \$ 5,300 Federal & State taxes withheld
 - \$ 3,618 in 401(k) deductions (6% of each pay check)
\$51,382 net or \$4,282 per month or \$1,976 per pay (every two weeks)



Regular Tax refund: \$ 38 per year
Giving: \$231 every two weeks (\$6,000 per year)
Savings account: \$240 + \$300 monthly automatically each month. Goal \$12,000 cushion
Checking account: \$500 +/-
IRAs: \$100 monthly into a Roth IRA (car replacement, college or weddings?)
401(k): \$65,750 + 6% contribution (\$139/pay) with 50% matching (up to 6% of pay)

Life Insurance:

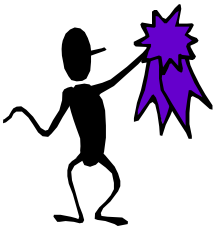
\$ 50,000 Group term policy w/ employer
 \$416,000 Twenty-year level term w/ guaranteed rates of \$480 a year

House: Bought 17 yr. ago for \$160K New \$113K fifteen yr. mortgage @ 3.57%. Current value \$175K

Reoccurring Expenses:

Average Monthly

Tithe:	\$ 502	(\$231 every two weeks)
Saving- Short-term:	\$ 300 +	
Long-term:	\$ 100	Roth IRA or Car Fund
Mortgage \$113,000 @ 3.57%	\$ 812	(new 15 year mortgage)
Real Estate/School Taxes	\$ 375 *	(\$4,500 per year)
Car & Home Owners Insurance:	\$ 196 *	(annual = \$2,350)
Food:	\$ 757	(\$175 / week x 4.33)
Electric:	\$ 145	
Phone:	\$ 37	
Heating (oil)	\$ 75 *	(annual = \$900.00+/-)
Car Gas:	\$ 324	(\$75 week x 4.33)
Personal Spending Money	\$ 216	(\$25 per person each week)
Life Ins:	\$ 40 *	(\$ 480 paid annually)
Gifts:	\$ 65 *	(Birthday and Christmas = \$780/yr.)
Cell Phones:	\$ 48	
Cable TV:	\$ 45	Is ESPN and Sports really needed?
Eating Out:	\$ 50	
Misc.:	\$ 195	(clothing, repairs, license, inspection, medical/dental, kids, etc.)
	\$4,282 total monthly out flow	



* **\$751 added to Short-term savings for planned expenses.** Total to go into savings each month = \$1,051.

End Results: Simple Planning and working together results in **Balanced Budget**
Stronger Marriage! No longer His money and Her money – work as **One-in-Christ**
Saving every month to avoid future credit card debt – no more fighting over money
Adequate life insurance to protect family – He really does love his wife ☺
Reduced unnecessary spending and focused on priorities
Planning for the future and a good Role Model helping children prepare for their future

