Financial Literacy 20 Project **Name ________________ Date _____________**

Background

Life was good for Evan George. For the very first time, Evan was earning a decent profit off his new business, while maintaining his steady part-time job. It was an exciting feeling. Discretionary income was something Evan had never had before. Evan knew that now was the time to firm up a budget and consider some investment options. His challenge was determining how much money he could reasonably invest this year and maintain liquidity for his business and personal needs. Once that was solved, Evan also needed to evaluate which investment made the most sense for his current situation.

Evan's goal was to have a personal financial plan in place by the end of the week.

Evan George

Evan had always been a bit of a risk taker. As a teenager growing up in Emerald Park, he would often bet his friends large sums of money on everything from sporting events to marks in school. This aggressive nature often worked out for him, as he excelled both in the classroom and athletically. Confidence was never an issue for Evan. He also enjoyed extreme sports and spent his winters snowboarding Backcountry Mountains and his summers kite-boarding on various Saskatchewan lakes.

After high school Evan moved to Saskatoon to take a Commerce degree at the Edwards School of Business at the University of Saskatchewan. He paid for his degree by accessing a student loan and bartending part-time throughout the year. Considering the substantial tips on top of the hourly wage, the bartending gig paid relatively well. In the summers, Evan also worked as a teller for Conexus Credit Union.

Upon receiving his Bachelor of Commerce from the University of Saskatchewan, Evan started up a sole proprietorship named Tune In. Tune In installed small televisions into the back of taxicab headrests, providing entertainment to customers while receiving a ride. Tune In sold advertising space on the televisions to various businesses and organizations, which generated the bulk of the company's revenue. Competing companies, such as Cab Vision, had utilized this business model successfully in major cities across the world. Evan noticed that no one had brought this idea to Western Canada and jumped on the opportunity. He maintained his teller position with Conexus while spending his evenings and weekends working on Tune In.

Between education and starting Tune In, Evan never had discretionary income to put towards saving for his future financial goals. After two difficult years of substantial capital investment and limited progress, the business had finally taken off this year and was earning a profit. Evan wondered if it was time to create a budget and potentially even consider various investment opportunities.

Evan has been diligently paying down his $10,000 student loan since graduation. He used the maximum 10 years to repay the loan at a fixed interest rate of 4.5%, which worked out to a monthly payment of $105. Evan will need to continue to pay this $105 per month for 8 more years to pay off this debt. He is unsure whether or not it would be a smart financial decision to pay off this debt sooner, assuming Tune In continues experiencing success.

Conexus Credit Union pays Evan $1,750 per month after taxes and deductions for his part-time job as a bank teller. He had also begun paying himself a monthly salary of $1,500 from Tune In. Of the Tune In salary, he had been separately saving 25% of it to go towards income tax and other deductions that he will be paying at the end of his fiscal year.

Investment Alternatives

Evan is considering investing either a portion or his entire personal monthly surplus. Through talking to his father, Evan realized there were numerous options. Like all investors, Evan was looking to maximize his return on investment for the level of risk he was comfortable with. However, he had some hesitations around locking in an investment where he couldn't access his money for an extended period. With the unclear capital requirements of Tune In, Evan considered it high risk to not maintain sufficient liquidity. A few of Evan's investment options included:

Anderson's Nickel and Dime Bank
• 5 Year Guaranteed Investment Certificate (GIC)
• Interest Rate = 2% compounded annually
• Principal and interest could be removed anytime after 6 months
Prevosts's Fly By Night & Co.

• 2 Year Bond
• Interest Rate = 3% compounded annually
• Money and interest remain inaccessible until the 2 year term is complete

Hemming's Mutual Funds
• All funds contain a 2% Management Expense Ratio
• All funds have aggressive tax implications for removing money from the fund at this stage of Evan's career
• Available funds include:

o Income Fund
Low Risk
4% annual net return (3 year average)
Fund gained 3% in 2008 (down year in the market)

o Balanced Fund
Medium Risk
6.5% annual net return (3 year average)
Fund lost 2% in 2008 (down year in the market)

o High Growth Fund
High Risk
11% annual net return (3 year average)
Fund lost 15% in 2008 (down year in the market)

Here are some other savings plans an investment advisor showed Evan.

Amount	***Interest return***	***Balance after 6 years***	***Investment Type***
$15/month	1%	$2170	Savings Account
$30/month	1%	$3300	Savings Account
$30/month	3%	$3500	Bond Fund
$50/month	3%	$5000	Bond Fund
$75/month	3%	$7000	Bond Fund
$50/month	6%	$5600	Medium Risk Mutual Fund
$75/month ($900/yr)	6%	$7700 (see below for breakdown of interest & growth)	Medium Risk Mutual Fund

Year	Balance	Interest	Yearly Savings	Year Ending Balance
1	$1,000	$60	$900	$1,960
2	$1,960	$118	$900	$2,978
3	$2,978	$179	$900	$4,056
4	$4,056	$243	$900	$5,200
5	$5,200	$312	$900	$6,412
6	$6,412	$385	$900	$7,696

There were a few other investment alternatives that Evan could consider. Evan's friends had recommended that he consider purchasing a house or condo in Saskatoon, to stop paying rent on his 1 bedroom apartment. He wasn't sure if this was a good idea or not. Evan struggled to decide if he should continue to direct either all or some of his personal surplus back into Tune In. He had invested a grand total of $35,000 into the business since its inception. Tune In earned a $20,000 net profit last year and Evan was predicting to earn $30,000 this year. Further capital investment would allow Evan to expand his marketing efforts into Alberta and British Columbia.

Moving Forward- Evan George had some challenging decisions to make. He wanted to make the best possible investment decision that still allowed flexibility for Tune In to grow. The other challenge he faced, was determining exactly how much money he would have to invest this year based on his budget. All of these decisions were overwhelming Evan. To clear his head, Evan wanted to develop a sound financial plan by the end of the week.

The Decision Evan needs to decide what to do. There are a number of things to consider:

- What changes should Evan make to continue to grow his business? Quit his job? Continue to work both jobs? Expand his business?
- What are the considerations between renting and buying a home?
- What can be done with his investments to help him reach his financial goals?

Exhibit 1: Financial Information: Evan's Personal Finance Situation

Evan had been living in his own apartment in downtown Saskatoon for the past two years. He focused on keeping his expenses as low as possible, knowing that was money he needed to invest into Tune In. An average month of expenses broke down as follows:

- Rent (One Bedroom Apartment) = $950
- Utilities (electricity, water, cable and internet) = $210
- Cell Phone = $75
- Vehicle (gas, insurance and maintenance) = $250
- Groceries = $175
- Clothing = $75
- Personal = $30
- Entertainment = $150
- Miscellaneous = $50
- Student Loan Repayment = $105

Case Analysis

1. **Problem Statement:**
    a. What is the Problem Statement? The problem statement should be a clear, concise statement of exactly what needs to be addressed. 5 marks

    b. What are some issues that need to be dealt with right away in the next 3 months? 2 marks

    c. What about the next 3 years? 2 marks

d. Describe a timeline for his life and some possible financial situations he might do (when he gets a mortgage, when he saves for down payment, when he saves for retirement, when he might stop working, retire, etc). 4 marks

Time Frame	Financial activity (debts, savings, spending, travelling, purchase examples, etc) What are they doing with their money- save, spend, borrow, invest??
20-30 years old	
30-40 years old	
40-50 years old	
50-60 years old	
60-70 years old	
70-80 years old	

2. Describe the person in the case

a. Who is this person? Age, family situation, characteristics of the person that would help you to determine a financial plan 2 marks

b. Describe the lifestyle that he leads 2 marks

c. What are his financial goals? 2 marks

d. Are there any issues with Evan's current financial situation? 2 marks

e. What are some positives that Evan can control? 2 marks

f. Does Evan have good experience, education, income, future earning potential? 1 mark

g. Has Evan made good decisions in the past? 1 mark

3. Current Financial Situation Analysis

PART 1: Complete a monthly Budget for Evan

a. What are his revenue sources? What is the total amount that Evan receives from all sources? 2 marks

b. Where are his FIXED expenses? What are his VARIABLE (changing) expenses each month? 2 marks

c. What is his NET INCOME (after deductions) that he has available to spend? 2 marks

d. Use numbers to show your analysis of his current situation.

Income:		Gross Income		$__________
	Minus Federal Income Taxes (15%)		$__________	
	Minus Provincial Income Taxes (11%)		$__________	
	Minus other payroll deductions (7.5%)		$__________	
	Equals:	Net Income		__________
Expenses:		Fixed Expenses		__________
		Flexible Expenses		__________
	Total Expenses (Fixed + Flexible Expenses)			____________
	Amount left over! (Income - Expenses)			__________

e. What are items that are considered non-essential living items (a want) that could be cut out? 2 marks

PART 2: Complete a net worth Budget for Evan

a. What are his assets that he owns? What are his debts right now? Discuss this credit in terms of what it was used for and the importance of the debt. Was it “necessary debt” that he needed to get for his future? 4 marks

b. What debts might he consider in the next 5 years? ? 2 marks

c. Is this net worth a good position for him to be in right now, given his current life cycle? 2 marks

PART 3: Economic impact & the world around Evan?

a. What are some events outside Evan's control, that can create opportunities for his situation (i.e. a growing economy? Job prospects for his future? Robotics and automation for jobs? Low interest rates for borrowing money?) Is there a good potential for future income for this person? 3 marks

b. Does the outlook for the future look positive for the investments to grow if he does begin saving? Are there any political or economic situations in Canada or around the world that could potentially affect Evan? Use the current situation we discussed at the beginning of January and some current events that could affect him. 3 marks

4 .WHAT ARE SOME ALTERNATIVES? State 3 alternatives Evan for his financial future.

What financial choices should he consider regarding debt? Credit cards? Mortgage?

Most suitable alternative should be selected and state the pros & cons of each.

a. Alternative 1- DO NOTHING What will happen if Evan doesn't change his financial situation at all right now and he doesn't move, doesn't change his spending or saving habits?

PRO (the possible positive outcomes to this plan)	CON (the possible negative outcomes to this plan)

b. Alternative 2- State some ideas regarding spending, borrowing & saving. What is one plan that he could do? Show some new budget ideas (income and expenses) and how this change might impact his future assets and liabilities in the future.

PRO (the possible positive outcomes to this plan)	CON (the possible negative outcomes to this plan)

c. Alternative 3- Come up with another idea for Evan that might also work for him with some ideas regarding his job, spending & saving. Show some new budget ideas (income and expenses) and how this change might impact his future assets and liabilities in the future. (for example quitting his job and doing his business full time)

PRO (the possible positive outcomes to this plan)	CON (the possible negative outcomes to this plan)

5. **RECOMMENDATION**

Which alternative do you recommend that Evan go with? ____/4

Explain why you selected the option you did. Consider comfort level with risk, length of time required to reach financial goals, Evan's personal satisfaction, potential for future earnings, and his future goals.

What are some considerations regarding Evan's life that helped shape your recommendation?

7. RISK MANAGEMENT

What are some events that could happen that would affect this plan and what could we do to help prevent big problems? (example- job loss, no future job, etc.)

- Problems in the case that are causing issues
- Things that need to change?
- Poor financial position currently?
- Inexperience?
- Lack of knowledge or direction?
- Legal issues?
- Political issues?
- Competition in the job market?
- Economy threats to jobs or income?

Identify **<u>TWO RISKS</u>** that could happen in the future and what could be done to help prevent future problems 6 marks

RISK	How can this be fixed or avoided?	Likelihood of happening (low risk, medium risk, high risk)

Final Financial Summary for yourself:

1. Summarize what you have learned in this class this year about Personal Finance and how it will help you in your life.

2. What are your financial goals for your future? State 3 goals and be Specific, Measure in (dollars), Realistic, Time frame

3. How do you plan on achieving these goals? What are some activities that you will do so that you can meet these financial goals?