

2016 HSBCC Personal Finance Case

The Struggle is Real

Background

Meet newlyweds, Liam & Taylor. The couple has been living the dream over the last few months. They just got married in the summer of 2015 and are still in their honeymoon phase. Life has been carefree! They are young, outgoing and adventurous, and they enjoy indulging in the finer things in life on occasion. This past Friday, they went out with a few friends for dinner and drinks. It was an awesome evening all the way up until the point when the waiter brought the \$150 bill. In that moment, the couple realized that this type of spending really didn't work with their financial situation. Later that evening after stepping back into reality, the newlyweds agreed that they needed to set up an appointment with a financial advisor at Conexus Credit Union, in order to plan well for their financial future.

Liam

Liam (26) is currently working full time as a third year welder with CBA Welding in Saskatoon, Saskatchewan. He's working towards his journeyman ticket and has a goal of starting up a seasonal food truck business on the side. The food truck will be a joint project with a second investor, who will take the lead in the day-to-day operations, allowing Liam to maintain his full-time work as a welder year round. Both Liam and his business partner will make an initial investment to get it started. Ideally, Liam hopes that moving forward, the truck will not require any additional personal investments.

Taylor

Taylor (24) is a full-time education student, completing her degree in two years and is not currently employed. In order for Taylor to attend classes, she purchases a monthly City of Saskatoon student bus pass, and occasionally hitches a ride with friends to or from school (depending on class and bus times). During her 4-month summer vacation, Taylor usually works part time at the Broadway Roastery in Saskatoon, which helps to supplement Liam's income.

The Future

The struggle Liam and Taylor are currently facing is the desire to enjoy their free time, while still being savvy with their extra money and allowing them to save for the future. As a young couple they appreciate going out on dates and feel that it is imperative to keep their relationship strong. As they are currently only living on one full-time income, maintaining this life style poses a dilemma. Liam and Taylor brainstormed some ideas while preparing for their meeting with Conexus' financial advisor; they determined that their future financial goals include spending some time travelling, saving for a down payment on their first home, initial investment in the food truck business, and lastly,

paying off their current debts. See Appendix 1 for a breakdown their financial goals and debts.

Summary and Plan

As Liam and Taylor's financial advisor, they require you to:

- Review their goals and determine how realistic they are
- Rework their budget and look for ways to decrease monthly expenses and minimize spending habits
- Develop a new, more sustainable way of living

Paying off debts is a priority for the couple, and they are looking to set up a budget that accomplishes that while still allowing them to save for future goals. The outcome will need to include a 5-year budget using current income, as well as projected secondary income once Taylor becomes a teacher (considering average annual first-year income at \$44,000). If allowable, the couple would prefer to be debt free by the time they buy their first home.

Liam and Taylor are hopeful that with your help they can become financially stable and start on the path to success as soon as possible. The couple can't keep this up much longer!

Appendix 1 – Financial Goals and Current Debts

**Below are their current goals, as well as debts, payment schedules, bills and income.*

<u>Goals - High Priority</u>	<u>Time Line</u>	<u>Value</u>
1. Down Payment on 1 st home	5 years	\$12,500 - 15,000
2. Food Truck*	1-2 years	\$5,000**

* Food truck will be self-sufficient after initial investment. A loan for \$25,000 will be taken from family members for the remainder of funds and the truck profits are projected to pay back the family members' investments in the first season of business.

** \$5,000 investment is Liam's total contribution; his partner investor will also contribute \$5,000 in start-up costs.

<u>Goals - Med Priority</u>	<u>Time Line</u>	<u>Value</u>
1. Travel	2-3 years	\$3,000 - 5,000

<u>Debts - Type</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Payment</u>
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High Priority:

1. *Credit Card	NA	19.99%	\$2,000	\$60
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*\$2,000, interest rate is 19.99%, minimum monthly payment based on 3% of borrowed amount

Med Priority:

1. Car Loan	Aug 2022	1.99%	\$35,414.80	\$452.47
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Low Priority:

1. **Student Loan	NA	4.2%	\$5,000	\$17.50
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** \$10,000 maximum, currently advanced \$5,000. Payments are interest only while in school. Liam and Taylor can put extra money down as needed when funds become available in the revised budget. They can do the same with their car loan without penalty.

Appendix 2 – Liam & Taylor’s Current Budget

Income:

Liam: \$70,000 gross annual income

Taylor: \$4,200 income (25 hours per week at the coffee shop)

Supplementary funds:

Liam, work bonus 10% of gross annual income, taxed at 35%

Both: \$2,500 tax refund (anticipate this amount based on previous years income tax refunds, while Taylor is in school)

Monthly expenses:

\$1,050	Rent (2 bedrooms - water and power included)
\$75	Energy
\$122	Cable, Internet, Home Phone
\$150	Cell phones (both Liam and Taylor have cell phones in a two year contract ending October 2017)
\$140	Plates and Package Policy
\$180	Gas for vehicle
\$30	City of Saskatoon bus pass
\$25	Rental Insurance (Monthly)
\$275	Food/Groceries
\$300	Clothing/Entertainment/Gifts (date nights/going out for supper included)
\$600	Sports/Club/Activities (yearly – Liam’s soccer fees)
\$50	Charitable Contributions (annual tax receipt provided)
\$452.47	Vehicle loan payment
\$17.50	Student loan payment