

**GOVERNOR'S CHALLENGE**  
in **Economics** and  
**Personal Finance**

2012 Personal Finance Case Study

2-27-12

*You and your teammates focus on providing financial planning for your clients. Mr. and Ms. Martinez have heard from friends that you are great at helping families think through various options so that they can develop a plan that will help them reach their goals and make smart financial choices to help them get there.*

*When you first met with the Martinezes, you learned the facts set out below as well as on the attached balance sheet and budget. Use this information to help the Martinez family improve their financial condition and reach their financial goals. Further directions are provided at the end.*

John and Frieda Martinez live in Roanoke, VA. They have a daughter, Olivia (age 3). John (age 30) teaches full-time at the local high school, and Frieda (age 29) is a business management consultant. They are currently renting an apartment, but they would rather own a house in which to raise their family. They would like your financial advice on whether they should purchase a house or continue to rent an apartment.

The Martinez family has **provided you with a current balance sheet and an estimated budget of their living expenses for the year 2012**. These statements will show you the Martinez family's current financial condition, and they will give you a very good picture of how the Martinezes manage their personal finances. Using the information on the balance sheet, you will need to calculate and determine the annual and monthly loan payments and car payments and arrive at the total living expenses and available cash remaining on the budget.

Here's some information on the house that the Martinez family would like to purchase.

Purchase price of house \$180,000

20% down payment is required

Local banks will provide fixed rate mortgages or adjustable rate mortgages ranging from 15-30 years in length. All of these banks will charge an interest rate (APR) equal to the US average mortgage interest rate.

All mortgage payments are calculated as level-payment (amortized) loans.

Closing costs will total \$6,000 (title search, title insurance, appraisal, etc.)

Homeowners Insurance and Property Taxes will cost a total of \$120/month.

Increase in other monthly living expenses due to owning the house \$350/month. This is due to higher utility bills, repairs, etc. associated with owning a house.

All remaining income is invested for Olivia's college education or put into the family's savings account. The family would like to be able to pay for at least 2 years of Olivia's college tuition. Their goal is to have enough money in Olivia's education account by the time she is 18 years old. Because the Martinez family does not have any idea of how much the current average annual tuition is for 4-year in-state universities, they need your help in determining how much money they will need to reach their goal. They are also interested in knowing how much they will need to invest per month to reach their goal for Olivia's education. From an investing standpoint, both John and Frieda have a moderately conservative risk tolerance.

The Martinezes' other life goals are:

1. To improve the financial security of their family through adequate emergency savings and life insurance coverage. They would like for their life insurance to be able to pay for their final expenses, pay off the consumer debt and the mortgage if they buy the house.
2. For John and Frieda to be able to retire when John turns age 60. They would like to have enough money in their retirement accounts to allow them an annual living expense (pre-tax) equivalent to \$75,000/year in 2011 dollars. They are assuming they will be retired for a total of 35 years.
3. To pay off their credit cards and student loans within the next 5 years.

Use this information to help the Martinez family improve their financial condition and reach their financial goals. You may make any necessary assumptions in your analysis – but do not assume the problem away!

At a minimum your written plan should address the following areas:

- A. The main strengths and weaknesses of the Martinez family's current financial condition.
- B. Your suggestions for improving these main weaknesses.
- C. Your suggestions regarding the Martinez family's goal of buying the house.
- D. Your suggestions for attaining their goal for Olivia's college education.

**If your team is one of the top scoring teams in the online Personal Finance Division of the Governor's Challenge and invited to participate in the statewide Championship on April 20, 2012, below are some additional directions.**

- By **Tuesday, April 17, 2012 at 5:00pm**, provide a written report in any format you believe appropriate that sets forth your recommendations and includes any assumptions and calculations you believe would be helpful for the Martinez family/judges. The report cover should include the names of your financial planning team and your sponsoring teacher, school and school division. E-mail the report to Sarah Hopkins Finley at [shfinley@vcu.edu](mailto:shfinley@vcu.edu). If you do not receive an e-mail acknowledging receipt within 30 minutes, please call Page Ritter to confirm receipt of the report (804-828-1628.) **MAXIMUM page limit: the report with recommendations may not exceed 10 pages, not including the cover page. An appendix may also be added with any supporting documentation and calculations deemed appropriate.**
- Visit [www.vcee.org](http://www.vcee.org) for additional details regarding the Championship Challenge on April 20, 2012. (Look under Governor's Challenge under Programs/Awards.)

Judging at the Governor's Challenge will be as follows:

**Written Project Evaluation**

- Methodology - 20 points
  - Appropriate methods (10)
  - Creativity (5)
  - Citations/References as appropriate (5)
- Accuracy of Calculations - 25 points
  - Clearly stated assumptions (5)
  - Correctness of calculations (20)
- Recommendations – 40 points
  - Clearly stated recommendations (10)
  - “5 Ws” Who, What, When, Where and Why (10)
  - Realistic nature of recommendations (10)
  - Recommendations help client work towards stated goals (10)
- Professionalism – 15 points
  - Organized (5)
  - Formatting/Appearance (5)
  - Appropriate tone of project – relates to client, grammar (5)

**Oral Presentation at the Challenge**

- Clarity of Presentation and Content – 50 points
  - Introduction of team members (5)
  - Clearly state the specifics problem/goal addressed (10)
  - Appropriate use of visuals/presentation aids (10)
  - Appropriate methodology/tools (10)
  - Clear-recommendations (with “5 Ws”) (10)
  - Realistic nature of recommendations (5)
- Involvement of all members – 20 points
  - Oral presentations (10)
  - Answering questions (10)
- Professionalism – 30 points
  - Organized presentation (10)
  - Appearance & demeanor of team (10)
  - Creativity (10)