Free case study on finance management

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- Identify the problem they have now or will have in the future.

The first problem which the couple is currently facing is overspending. After deducting all the expenses which the couple is incurring monthly from their total combined income, John and Mary are incurring a monthly deficit of $3, 317. 95. This computation is based on the net earnings of the couple after deducting income tax and voluntary superannuation contribution, which both John and Mary participate in (ATO, 2014). This is in spite of the numerous income sources which they individually have and bearing in mind also that they do combine their incomes at the end of the month in order to pay the bills due. The deficit is attributed to the numerous loan repayments and other monthly expenses which John and Mary are obligated to whether individually, or in a combined capacity as a couple.

The second problem which John and Mary are facing is their increasing credit card bill. Their credit card currently has an outstanding balance of $25, 565, with their monthly repayment towards this debt being at 3%. This translates to a repayment of $766. 95 per month. At this rate, it would take the couple almost 34 months to clear their entire credit card debt. However, this is hampered by the fact that the credit card debt keeps on increasing despite their numerous efforts to pay it off. This hence means that the problem of the credit card debt is not only confided to the present, but it will continue to destabilize their finances in the coming years if measures to check it are not immediately put in place.

The third problem which the couple might face in the future relates to Mary`s mother. Since she has been diagnosed with a brain tumor which cannot be operated on, she will require specialized medical care in the near future. The disease sounds like it may be terminal and the medical care costs for such diseases are usually very high. Unfortunately, she is a widow meaning that John and Mary will most likely be charged with the task of looking after her. The fact that the brain tumor cannot be operated on may imply that she may require a lengthy stay in a hospice before she eventually passes on. This will require the couple to commit significant financial resources towards the care of Mary`s sick mother during the time of her illness.

The fourth problem relates to the couple`s retirement plans, and the establishment of a college fund for their children. Since the couple is both in their mid-thirties, this may mean that they may only be left with around 20 years of an active working life before retirement sets in. During this time, the couple is expected to finish the mortgage payments for their home; set aside savings that will adequately cater for their retirement; and set up a college fund for their three children, the first of whom is due to go to college in about 12 years' time. Their current financial plans may not have adequately addressed these impending future financial obligations.

- Identify the necessary steps which the couple needs to take to improve and better their situation.

The first step which the couple needs to take relates to the deficit in their monthly expenses. This will imply financial problems in the future if it is not addressed. John and Mary`s monthly expenses are too high compared to where their combined income currently stands and the couple must identify various aspects of their monthly expenses which they will need to reduce or entirely eliminate. The first of these relates to John`s young nephew who is living with them and does not contribute to the repayment of the monthly expenses which he incurs while living with the couple. Although he does not earn as much money as the couple and instead send most of it back home, his upkeep at the couple’s house has become burdensome since he directly contributes to the monthly deficit which John and Mary are currently facing. The couple should therefore require him to contribute to the monthly expenses in a proportion equal to what he consumes in the house per month (Robinson, 2011 p. 72).

The second step relates to reducing the day care bill for the couple`s children, which currently stands at $1, 800 per month. This is an astronomical figure which the couple should reduce by opting to hire a full time nanny instead. The cost of hiring a professional nanny in Australia ranges from $800 to $1, 200 per month. The savings attributable to this option will go a long way in reducing the couple`s monthly deficit in their current expenses.

A significant portion of John and Mary`s monthly expenses is constituted by loan repayments. With the exception of the mortgage repayments, the couple`s other loan repayments amount to $3, 578 per month. This amount has a significant impact on their monthly expenses especially bearing in mind that most of these loans may not have been an immediate priority when they were undertaken. This includes the loans taken for an entertainment unit for their home, and the loan which the couple took for a trip around the world. The couple should have instead opted to save some of their income for these leisurely purposes.

Since the couple has a private health cover for which they pay $235 per month, this cover should have catered for the eye surgery thereby eliminating the need for a loan for this purpose. The couple should also have reduced the amount of their car loans, especially in relation to Mary`s car, bearing in mind that it was intended for her own convenience unlike John`s, whose car is a utility vehicle which he uses for his gardening business. As a matter of urgency, the couple must therefore take steps to reduce the amount of money, which they borrow in the form of loans, especially if those loans are to be used for non-essential purposes such as entertainment.

The couple, in their individual and combined capacities has a significant proportion of their finances, which is held in the form of savings and other contribution funds. The couple has also set aside a significant proportion of their wealth for emergencies amounting to $15, 000 of their combined wealth. This is over and above the $10, 000 which John ha set aside for a similar purpose in his business. In total, Mary`s savings funds currently amount to $106, 700 at market value, with those owned by John amounting to $34, 000. An in depth look at the combined total of the resources which the couple has set aside for emergencies and as savings may reveal that some of these funds may be lying idle. The couple should therefore invest some of their savings in investment options that bear a higher risk such as shares, as this will ensure a return higher than what they are currently earning when held up in bank accounts as savings.

Over and above the couple`s strive to reduce their monthly deficit, John and Mary must also work towards setting appropriate college and retirement funds for their children and for themselves respectively (Robinson, 2011 p. 68). To achieve this, the couple must first start by speeding up the rate at which they repay the mortgage for their house by investing some of their savings in more risky assets. Upon completion of the mortgage payments, the couple could hence embark on the setting up of these vital funds using the financial resources that will have been freed up by the early completion of their mortgage repayments.

Alternatively, the couple could use the returns from the investments which they will make using some of their savings to set up the college and retirement funds in the short run while still undertaking their mortgage payments (Williamson, 2013 p. 99). This will ensure that the couple will meet their mortgage, college fund and retirement savings obligations concurrently implying that they will have achieved these milestones all at once, upon completion of the respective payments.

- Explain why the above steps are needed

The first reason why John and Mary need to take the above steps is to avert a simmering financial crisis that is currently being evidenced by the deficit in their monthly budget. This deficit can be directly blamed for the increasing credit card bill which the couple is currently facing, in light of the preexisting outstanding balance. If the monthly deficit is not addressed urgently, the couple`s debt will continue to increase and may eventually force them to start borrowing for purposes of maintaining their monthly upkeep. This increase in debt will put them at a disadvantaged position bearing in mind that they debt will not be intended for development expenditure but rather for consumption purposes (Robinson, 2011 p. 70).

The second reason why the couple must take the above steps is to ensure that they safe guard their financial security when they retire, and also that their children will be able to go to college when the time comes. The couple may only guarantee this if their mortgage is duly paid off before this time comes, so as to ensure that they are not forced to delay their retirement due to recurring financial obligations. The ability of the couple to achieve this state of financial health is pegged on how well they implement the above steps in the present, for them to bear fruit.

The third reason why the couple must take this steps is to enable them handle major unforeseen eventualities such as the prolonged illness which Mary`s mother is expected to undergo. The couple’s desire to enjoy the finer things in life such as travel and entertainment can also only be guaranteed if they take the above steps, so as to ensure that such instances do not affect their financial security both in the present and in the future.

- Illustrate the expected outcomes from taking these steps.

As a result of implementing the above proposals, John and Mary are expected to observe a gradual decline in their monthly deficit in the short term, leading to the elimination of the deficit altogether. At this point, the couple’s finances are expected to drastically improve and result in monthly savings and this will boost their overall financial well-being both in the short run and in the long run.

The second outcome from the couple`s adoption of the above steps is the guaranteeing of their financial security in the future when they will no longer be able to work due to aging. Bearing in mind that this moment in time is not too far away, the couple must hence take these steps to ensure that they will enjoy their retirement by having the privilege of owning their own home at that time, and also having enough financial resources to see them through their golden years (Robinson, 2011 p. 80).

The third outcome that will result from the couple taking the above steps relates to John and Mary`s children. The couple will be able to grant them a good college education which will form a foundation for their individual success in their latter life (Williamson, 2013 p. 108). The above steps will also ensure that the couple will have sufficient wealth to bequeath their children, once they pass on due to old age hence creating a good financial foundation for them.

In relation to inheritance, Mary is obligated to advise her ailing mother to create a will that will spell out how her estate will be administered after she has gone. This is as a result of the fact that she will not be able to communicate effectively during the latter stages of her illness. By creating the will now, Mary`s mother will see to it that her wishes are fully implemented in her absence and hence she will not have to worry about her estate during her sickness. This will also ensure that any conflicts that may arise between Mary and her siblings if any are dealt with by her mother now, as opposed to later on when she is gone.

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