

### 1) Personal Balance Statement

<b>ASSETS</b>	<b>\$</b>	<b>DEBTS</b>	<b>\$</b>
Couple's Savings	20,000	Jack's Credit Card Debt	3,000
Couple's Checking	12,000	Anne's Credit Card Debt	1,000
Jack's Car	35,000	Jack's Student Loans	50,552
		Jack's Car Loan	21,800
<b>Total assets</b>	<b>67,000</b>	<b>Total Debts</b>	<b>76,352</b>

Net Worth = Assets – Debt = \$67,000- \$76,352= -\$9,352

Overall, because the couple's total debts is greater than their assets, they have a negative net worth of \$9,352. According to figure 3-2 in our text, this would put the couple below the median quartile for their age group, which essentially that they are not doing well with their current financial state Because both Jack and Anne are Ph.D. students however, their assets will only continue to grow. And since their tuition is currently fully covered, they will not have to worry about accruing any more student debt. Thus, their net worth is projected to only grow with age. However, they should focus on paying off their debts and not accruing much more.

## 2) Personal Cash Flow Statement

Cash Inflows		Cash Outflows	
	Monthly		Monthly
Jack's Salary = 28,500 / 12	2,375	Jack's Withhold (Federal/State) = 3,388 / 12	282
Anne's Salary = 23,000 / 12	1,916	Jack's Withhold (Medicare/SS) = 2,142 / 12	179
		Jack's Student Loans	665
		Jack's Withhold (Federal/State) = 2,521 / 12	210
		Jack's Withhold (Medicare/SS) = 1,760 / 12	147
		Jack's Car Loan Payment	380
		Rent	786
		Parking	120
		Electricity	40
		Internet	45
		Car insurance	87
		Uber	300
		Boxing x2	140
		Personal Trainer	125
		Therapy x2	200
<b>Total Cash Inflows</b>	4,291	Monthly credit card payment x2	240
		Eating out x4	260
		Lunch w/ cohorts = 20 x 4 + 20 x 4	160
		Groceries	550
		Cell Phone Plan	120
		Gifts	120
		Entertainment x2	160
		<b>Total Cash Outflows</b>	5,316
<b>TOTALS</b>			
<b>Net Monthly Cash Flow</b>	4,291		
	- 5,316		
	= - 1,975		

According to their Monthly Cash Flow Statement, the couple is currently in a deficit of - \$1,975. One thing that the couple is doing well is making payments to their credit cards each month, which is insuring that they don't accrue any interest over time. With APR's of 11% and 10%, the couple would definitely be feeling the interest from all of their trips if it wasn't for that fact. That being said, there are many opportunities for change and improvement. One change they can work on is Anne's use of Uber as their transportation method. Because they live in Dinkytown, there are many bus lines that would get her to where she needs to go. Thus, she should definitely get a bus pass to reduce her transportation costs, or even find rides from either Jack or any of her friends whenever she can. Another expense that the couple could possibly get rid of as well is the personal trainer. However, they may not feel comfortable enough just yet to do their workouts alone.

### **3) Personal Financial Ratios**

<b>Personal Financial Ratios</b>	<b>2 points each</b>
<b>Liquidity ratio</b> = Liquid assets / Monthly expenses	$\frac{(20,000 + 12,000 + 35,000)}{5,316}$ <hr/> <b>= 28.93</b>
<b>Asset-to-Debt ratio</b> = Total assets / Total debts	$\frac{67,000}{76,352}$ <hr/> <b>= .8775</b>
<b>Debt-to-Income Ratio</b> = (Annual debt repayments/gross income) X 100 = (Credit card payments + Student loan payments + Car payment) / (Total Salary)	$\frac{((240 \times 12) + (665 \times 12) + (380 \times 12))}{(28,500 + 23,000)}$ <hr/> $= .2994 \times 100$ <hr/> <b>= 29.94%</b>

#### **1. Liquidity ratio**

Because a liquidity ratio tells a person how long they could realistically meet their monthly financial expenses if their income were to stop, a ratio of 28.93 means that the couple could support themselves for about 29 months. Because life can be very unpredictable, I believe that having this amount of time to recover from any unknown incident is extremely valuable. Essentially, it would give them enough time to find new sources of income if anything were to happen.

#### **2. Asset-to-Debt ratio**

The asset-to-debt ratio lets a person know to what degree does their assets exceed their debts. Because the couple's ratio falls below a ratio of 1, they are currently insolvent meaning that they have more debts than they do assets. This is typical for people who are still in school, however, since they do not have job that would give them a large enough salary for which they could save a lot of it in a savings account.

#### **3. Debt-to-Income Ratio**

Since the couple has a debt-to-income ratio below 30%, their current income is sufficient to meet their debts. While this is the case with there debts, it is not enough to look over the fact they their cash outflow still exceeds their income. Their ratio could be significantly lower if they were making fewer monthly payments to other sources, thus allowing them to make more payments to their debts than they currently are.

#### **4) Personal Financial Ratios**

**Short-term: Eliminate/mitigate unnecessary expenditures such as personal trainers and uber trips to save \$125-\$425 a month in order to start moving out of a financial deficit.**

- S. Jack and Anne (who) can stop using a personal trainer and Uber (what) as soon as possible (when) so that they can lower their net cash outflow and ultimately work towards moving away from a financial deficit (why).
- M. Jack and Anne will have achieved this short-term goal if their monthly cash outflow is reduced by between \$125-\$425, since mitigating the uber trips would mean finding a cheaper source of transportation. If Anne was to find an alternative transportation source at no cost, then \$425 would be the goal.
- A. The question of whether or not this goal is attainable hinges solely on the ability to find an alternative transportation source, since eliminating a personal trainer wouldn't be difficult. Alternative transportation sources could be anything from getting a bike, using the bus, or relying on Jack and/or friends.
- R. The reason that this goal is relevant to their financial health is simply due to the fact that it would help the couple get out of a financial deficit, since they are currently paying for more than they are making.
- T. Since this goal is about the elimination of certain expenditures, it can be set out for as quickly as within a week.

**Mid-Range: Work towards having a surplus cash flow at the end of each month by finding more avenues to eliminate expenditures to ultimately make more money than their spending**

- S. Jack and Anne (who) should look for more places where they can eliminate arbitrary expenditures (what) within the next year (when) so that they are no longer in a financial deficit, but rather a surplus by the end of each month. (why).
- M. Jack and Anne will have achieved this mid-range goal if they find that their cash-flow statement shows that they are no longer in a financial deficit. Specifically, they should find ways to save approximately \$2,000 each month.
- A. As with the short-term goal, attainability relies on being hyper-conscious of where their expenditures are going, and whether or not they need to be spending money in those avenues—or at the very least, finding cheaper alternatives.
- R. The reason that this goal is relevant to their financial health is once again to work towards making more money than they are spending. This money can then be used to pay off any loans that they currently have, so that those loans can be fully paid of quicker than they would have been originally.

- T. This goal can be accomplished within the year, since their cash-flow statement shows that there are many easy places to cut spending to begin with. Then, moving on from their will require a little time to find other areas to mitigate unnecessary expenditures.

**Long-term: Pay off Jack's student loans of \$50,552 by slowly increasing his monthly payments while remaining under a 30% debt-to-income ratio in order to completely pay it off within less than 6 years.**

- S. As Jack (who) starts to lessen his monthly expenditures, he can slowly start increasing his monthly payments while remaining under a 30% debt-to-income ratio (what) over the next 6 years (when) so that he can fully eliminate his debt (why).
- M. To measure this goal, Jack needs to ensure that he is increasing his monthly payment of \$665 while also maintaining a debt-to-income ratio below 30%.
- A. To attain the goal of increasing his payments, he needs to make sure that he is decreasing any other debts that he may have accumulated.
- R. This goal is extremely relevant to their financial health, since it ensures that they are paying less and earning more overall in regard to debt and income.
- T. The timeframe for this goal is less than 6 years since currently, Jack's monthly student loan payments would take over 6 years to complete.