Taking Control of Your Finances
Activity 4A: A Family Budget Action Plan
Instruction Sheet (Rev 1.0)

Introduction: This is a practical hands-on activity that enables students to deal with the challenges of modifying a current budget in a way that improves the financial health of a middle class family.

Estimated Time for Completion: The total amount of time spent on the activity is fairly variable, approximately 1 to 3 hours for the Spreadsheet and Analysis depending on the student access to technology, the in depth of analysis taken, the background and skills with Excel spreadsheet.

Objectives:

1. To discover how to use a spreadsheet to quantify cash flow in a family context.
2. To experience the realistic challenges of taking control of one's budget and making the difficult choices necessary to live within your means.

Materials Required:

- Access to spreadsheet software and the project template ("BudgetActionPlan_Template.xls")
- This activity sheet.
- Access to the Internet.

Activity Overview: Most of the project can be self-driven with a minimal amount of training since the template has the formulas ready to go for the student. Students are reminded that they need to read the detailed financial information very carefully and to not forget how to properly prorate some of the expenses. For example, some are annual, bi-annual, quarterly-although many are already monthly expenses.

Note: Some students new to spreadsheets may not be aware of the way a negative amount is displayed **(red font, parentheses, or both**).

In summary, students should help the Davidsons calculate their status quo budget and balance the net cash flow to zero by (It is left to the student to decide just how intensely)

1) investing in some practical savings,
2) trimming expenses,
3) increasing retirement contributions, and
4) climbing out of long-term credit card debt.

Before you begin: Review the key principles in unit 4A of your textbook regarding the importance of taking control of your finances. Also, carefully read the following brief background description of the Davidson family before starting into the project.

• Gary and Michelle Davidson currently have 2 children (ages 9 and 7) and a golden retriever dog. Gary works as a manager at a local manufacturing plant. His current annual salary is $59,400. They have barely started saving for retirement and are not receiving full matching funds from the company for their 40l-k. To qualify for the maximum matching funds from Gary's employer, they would need to triple their current 40l-k contributions.

• They tend to spend more than they make each month but are not sure how much more. They feel like they have too much credit card debt, and don't have enough money set aside for family savings in the categories of emergency, Christmas, medical, or vacation.

• In reality, the Davidsons feel like they are not sure where the money seems to be going and would like to start a monthly budget action plan. In summary, they need your help!

Budget Action Plan Spreadsheet:
The file "BudgetActionPlan_Template.xls" provides you a spreadsheet framework to quantify the Davidson's monthly inflow and outflow. **The formulas are already set up** and you will be able to use the template to help the Davidson's balance their monthly budget, and to help them achieve their financial goals.

Procedure: Build a "status quo" budget for the Davidsons. That is, find out the status of their current net monthly cash flow. Read the detailed information about their finances and enter the prorated monthly amounts into the categories of income, payroll deductions, savings, and expenses. Make sure each amount is an accurate monthly reflection of their financial situation. *Note:* there may be more information than you will use and the items may not necessarily match the order of the spreadsheet. Be sure to proofread afterwards.

1. Each month Gary's payroll deductions include $367.45 for federal income tax, $162.50 for state income tax, and $378.68 for their FICA (Social Security and Medicare) tax. Currently $34.17 is being deducted and deposited into their 40l-k.

2. Probably one of the biggest concerns for the Davidsons right now is getting on top of the credit-card debt. Their current MasterCard balance of $4,730 is being assessed an 18% APR finance charge and they have a minimum payment of $95 monthly. They are hoping to pay off their debt within two years but this would require that they increase their monthly credit card payment to at least $236.14 to meet their goal.

3. The family bought a home 5 years ago for $250,000. Their loan is for 30 years at a fixed rate of 6% APR and their monthly payment is $1,349. To safeguard against theft, fire, and other calamities, they carry homeowner's insurance with an annual premium of $984. They are insuring their home with a different company than their vehicle insurance company and hope to combine both types of policies with the same insurer to save 15% on premiums. The Davidsons pay $675 every six months for county property taxes on their home and lot.
4. They currently pay a monthly cable TV bill of $65.49, a landline phone bill of $32.50, an Internet provider bill of $43.68, and a cell phone bill of $109.45. Their utility bills for electricity, natural gas, and water/sewer/garbage are $39.56, $89.75, and $53.49 respectively.

5. The Davidson's are a two-vehicle family. They own an older mini-van that is paid for, but recently purchased a brand new Ford F-150 4x4. They had to borrow just under $30,000 at a 7% APR, which resulted in a $586 monthly payment. They have estimated that they spend about $360 per year on vehicle maintenance and their vehicle insurance premium is $468 every six months. Lately, they have been averaging about $150 per month on gasoline for the van and truck combined.

6. Because the family rarely plans out their weekly meals or uses coupons $635 is a typical monthly average on groceries. They eat out quite often and spend about $125 at restaurants. Both Gary and Michelle belong to a local health club and spend $48 per month on membership dues, their clothing expenditures average about $90 for the family, entertainment is $65, household supplies about $35, miscellaneous items $70, and their monthly dog food and vet bills for their golden retriever average about $42. They also pay approximately $60 to various charities each month.

7. Finally, the Davidsons are doing their best to protect the family with health and life insurance policies. Currently they pay $197.89 (their monthly share of the company's health insurance package) and $47.82 (their quarterly life insurance premium).

Analysis: Upon completing the "status quo" budget, use the spreadsheet to modify the quantities so you can get the net monthly cash flow to zero and achieve as many of the goals as possible from the *Before You Begin* section above. You can do this by trimming and consolidating expenses and possibly recommending some realistic ways to increase income. Help them make a new budget action plan, and answer the following:

1. What was the original (status quo) net monthly cash flow for the Davidsons? _____

2. What percent of their monthly gross income is dedicated to the combination of their mortgage, homeowner's insurance, and county property taxes? _____

3. What percent of their monthly gross income is dedicated to vehicle expenses? _____

4. List some of your creative but realistic recommended changes to their budget:

- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____

Discussion:

1. How do you feel about the homeowner's total percentage mentioned in #2 of the *Analysis?* What do financial experts recommend as a maximum percentage?
2. How do you feel about the total vehicle percentage in #3 of the Analysis? How would you find the line between affordable and not affordable in terms of a vehicle?
3. Reflect on the personal impressions you had as you put together the Davidson's original budget and how this activity might impact your future financial decisions.

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